The Empire Club of Canada

Founded 1903

Addresses 1992–1993

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The Empire Club of Canada

1992–1993
89th Year

HER MAJESTY, QUEEN ELIZABETH II
HIS ROYAL HIGHNESS, PRINCE PHILIP,
DUKE OF EDINBURGH
on the occasion of their 40th wedding anniversary.

The Empire Club of Canada

Founded 1903

Addresses 1992–1993

GOD SAVE THE QUEEN

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The Empire Club of Canada

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full or partial endorsement of
The Empire Club of Canada

Published by
The Empire Club Foundation

Edited by Mary R. Byers

Photography by David Junop

Typeset by Fine Impressions, Toronto

Printed and bound in Canada by
The Bryant Press Limited,
Toronto, Ontario

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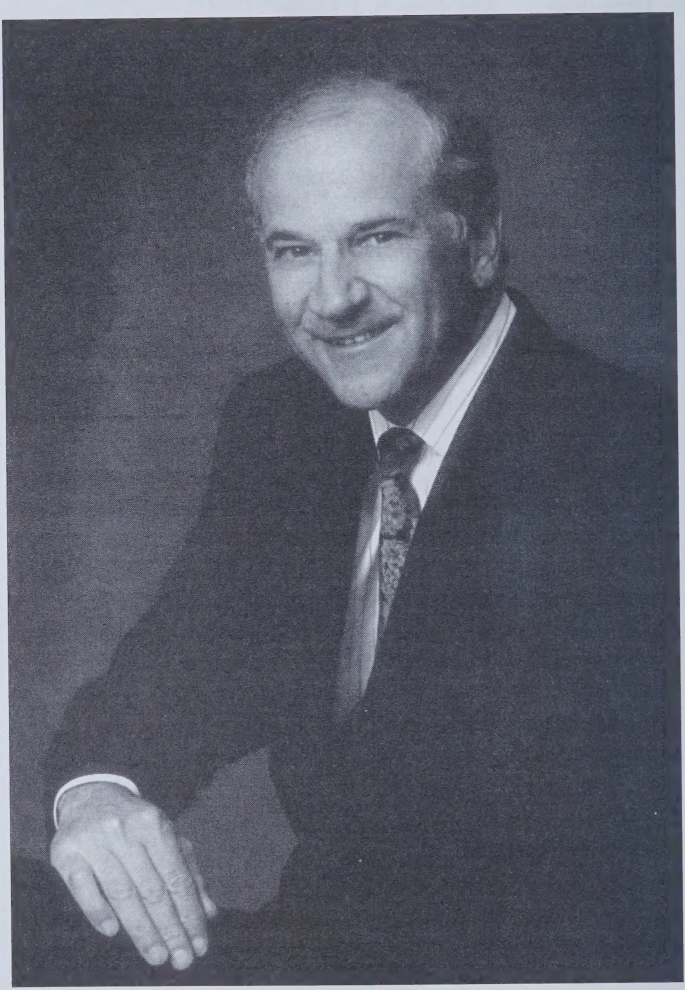

ROBERT L. BROOKS
President, 1992–1993

The Empire Club of Canada
PRESIDENT'S FOREWORD

Each year since 1903, The Empire Club of Canada has published a book containing the remarks of the year's speakers. These books serve not only as a repository of these speakers' wit and wisdom, but also collectively as a compendium of the relevant issues of the year. I believe this book is no exception.

The period 1992–93 was one in which Canada, once again, failed to revise its Constitution. At the same time the country was reaching ever more aggressively out towards the rest of the world as it grappled with a severe economic downturn and the need to participate more fully in intensely competitive global markets. Meanwhile, the so-called "new economy" based on knowledge industries and high technology, seemed destined to become the engine of growth in the future.

In the summer and fall of 1993 the people had to pick a new leader of the Progressive Conservative Party and then vote in a Federal election. Thus politicians were much in the news. In the United States, as well, there was a Presidential election which marked a change in power from the Republicans to the Democrats.

The Club's speakers touched on all of these topics and illuminated them from many angles. Their knowledge of, and commitment to, their points of view are evident throughout their remarks. Speakers do not regard The Empire Club as just another speech—rather, they regard it as what it is—Canada's longest standing and pre-eminent speakers' forum. As such, it gets the very best and preserves it for history to judge.

It is a tremendous honour to be elected President of The Empire Club of Canada. It is a tremendous pleasure to have the opportunity to meet and listen to so many interesting people in the span of a year. It is a tremendous learning experience and one to be treasured by all who have held office. I am extremely grateful that I had that opportunity and hope that those reading this volume will enjoy the speakers' content as much as I enjoyed listening to it first-hand.

Robert L. Brooks, President 1992–93

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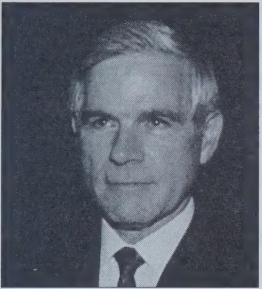


May 4, 1992

A joint meeting of
The Empire Club of Canada
and The Canadian Club
of Toronto

The Hon. Floyd Laughren

Deputy Premier, Treasurer of Ontario,
Minister of Economics

MAKING A BUDGET

Chairman: **Isabel Bassett**
President, The Canadian Club of Toronto

Floyd Laughren

A Budget is more than a statement of revenue and spending intentions for the next 12 months; it is a "plan of action" designed to address short-term and long-term priorities.

When we set out to design the 1992 Budget, we had three priorities in mind:

1) Supporting jobs,
2) Maintaining essential public services and
3) Controlling the deficit.

I'd like to spend some time describing how we balanced these three priorities, but first I'd like to set the budget in a larger context.

A recent United Nations Study said Canada is the best place in the world to live; Ontario, in particular, has been and continues to be a good place to live.

The Province has a history of strong growth, with real increase in GDP averaging 3.6 per cent between 1983 and

1991—better than any G-7 nation except Japan. Ontario is centrally located in the North American market. Total household income within one day's trucking distance of Toronto is higher than for any other major North American city.

And with a GDP per capita of $28,000, and roughly 10 million residents, Ontario is Canada's richest and most populous province.

But we shouldn't become complacent about our success. I think the recent recession has underscored the point that our economy is changing—and that we need to change with it. The cyclical recession combined with a structural recession has tested our ways of doing business, our ways of running government, and our relationship to one another.

The 1992 Ontario Budget recognizes these changes and lays out an action plan to address them. The Budget introduces initiatives that will address:

1) Immediate and long-term needs,
2) The needs of individuals and of communities and
3) The need to invest in the economy and to control spending.

The 1992 Budget introduces initiatives to stimulate the economy, and others to help restructure the economy. It does this by, for example, facilitating partnerships among the various economic players, emphasizing training, encouraging investment in new technologies and new ways of working and investing in strategic infrastructure projects that anticipate the changing needs of the economy.

It was not enough to address only the fiscal challenges, although that was one of our priorities. To the degree that a provincial government can influence the economy, we wanted to use the levers at our disposal to address Ontario's economic challenges and to secure the province's capacity for long-term wealth creation. Now let me turn to some of the initiatives in the Budget.

The Budget supports 90,000 jobs in 1992, and many more in the years to come. Our jobs strategy is a comprehensive one, encompassing several components, and involves partnership with the private sector—to link jobs to training for the long-term unemployed, to provide training for people currently working and affordable childcare to help unemployed single parents enter the workforce, to maintain public infrastructure and construct affordable housing, and to work on strategic capital projects that anticipate the changing needs of the economy.

Our plans also involve sectoral partnerships to address common problems, and goals and incentives to encourage business investment in new equipment and research and development.

To support this strategy we created three funds: the Jobs Ontario Training Fund, $1.1 billion over three years; the Jobs Ontario Capital Fund, $2.3 billion over five years, and the Jobs Ontario Homes Fund, 20,000 non-profit units over three years.

We've also made the largest commitment ever to training and adjustment; in total, we'll spend $930 million this year on training and adjustment programs, a 24 per cent increase over last year. We've also made a $3.9-billion commitment to capital projects in 1992, $500 million from the Jobs Ontario Capital Fund and $3.4 billion in base capital spending.

By designing our jobs strategy the way we did, we were able to create jobs and support important community needs, such as the need for affordable housing and a strong infrastructure. By focussing on training and infrastructure development we are also ensuring a strong future for this province.

We believe our jobs strategy produces a nice balance between immediate needs and future needs, individual needs and community needs.

We believe essential public services such as health care, education and social welfare are important to maintaining our standard of living and promoting equity and we will spend 70¢ of every dollar on these essential public services.

However, it has long been recognized that the costs of some of these programs have been increasing above both inflation and population growth rates. If we want to keep our public services, then we must control their costs. That's what we have done in this Budget. We have brought costs under control by making programs more efficient and reforming programs to better meet priorities.

Let's take a couple of examples.

For the past 10 years, year-over-year growth for health care has averaged over 11 per cent; this year health care will increase by only two per cent.

We will control costs through a variety of means—none of which affect the essential elements of our health care system. For example, reform of the Ontario Drug Benefit plan, better management of the growth in payments to commercial labs and other practitioners, and changes to current OHIP schedule of benefits to ensure services are of medical benefit.

As Ontario's population ages, the need to review and reform seniors programs becomes more urgent. If we want to protect seniors programs, and if the original purpose for these programs was to assist seniors, then we must focus on those who need assistance the most. Up until now, every senior household received from the government up to the first $600 of property tax (or 20 per cent of rent), regardless of income. In addition, every senior received a $50 sales tax grant, regardless of income.

But with the population aging, with government revenue falling, with the cost of the program increasing steadily, with many more seniors receiving company pensions, we must ask ourselves if the current design of this program meets Ontario's priorities.

To ensure this program does meet Ontario's priorities, we are establishing a more progressive form of property and sales tax support to seniors. The existing seniors tax grants program will be replaced with refundable property tax and sales tax credits. This new program will direct more money to senior households with low-incomes, reduce benefits to senior households with middle-incomes and eliminate benefits for most senior households earning in excess of $50,000 a year.

These changes will reduce the overall cost of the program saving $100 million a year, enable us to help those seniors who most need property and sales tax support, and ensure the viability of seniors programs in the years to come.

Our spending will grow by just 4.9 per cent this year, the lowest in 39 years. If you subtract spending on social assistance and PDI, then government spending will grow by only 1.5 per cent this year, less than inflation.

In January we faced an operating deficit of over $11 billion and total budgetary requirements of more than $14 billion. But, through a lot of hard work, we have lowered the operating deficit to $6 billion and our budgetary requirements to $9.9 billion, $1 billion less than in 1991–92. We have reduced our growth in spending by over $3 billion this year.

We froze the salaries for MPPs, cabinet ministers and 3,900 senior government managers; the Government and the Ontario Public Service Employees Union negotiated a one per cent wage increase for 1992. Transfer agencies such as municipalities, schools, and hospitals have been limited to a one per cent increase and non-salary overhead costs for all ministries were reduced by 10 per cent. In fact, most ministries will actually get less money this year.

We have modified many of our major programs to make them more efficient and more effective. I mentioned a few to you—health care, social assistance and benefits to seniors.

In the days to come we will reduce the number of layers in government so that operations will be more efficient and front-line workers will have more decision-making responsibility. And, through early retirement incentives and redeployment, we will reduce the size of the public service by 2,500 jobs over the next two years, and appoint a small group of people from outside government to find ways to make our operations more efficient.

A few people have said to me in the past few days: "You're not doing enough to reduce the size of government and what you are doing isn't fast enough. Many companies have restructured and downsized rather quickly, why can't you?"

Let me just say this. Most companies downsize because demand for their product or service decreases. But demand for our services has increased; it is challenging to downsize during a time when demand for your product is going up. But, despite that caveat, we are determined to make government more efficient.

Before continuing, I'd like to address a few areas where some confusion exists: what we mean by reducing growth in spending and how confident are we in our revenue forecasts.

A reporter questioned me the other day: "Sure, I can claim I saved $20,000 by deciding not to buy a new car. How real are these savings in government spending?"

To me, a better analogy would be paying an electrical bill. You know you have to pay the bill, and based on current rates and projected use, you anticipate you'll be paying $50 a month on hydro (or $600 a year). So that amount is what you would expect to pay.

But let's say you make some changes to the way you use electricity. And now you expect to reduce your monthly bill to $40 a month. That means you have reduced your expected rate of spending by $120 a year. That's what we've done. Based on changes we've made and changes we plan to make this year to the programs we must provide, we expect to save $3 billion over what we would have spent without those changes.

We are also confident in the revenue projections in the Budget. I am quite confident the two stabilization claims we filed last year will be forthcoming in this fiscal year. I am also confident about the revenue numbers from the sale of non-strategic government assets. The dollar amounts outlined in the Budget are not unrealistic given the size of the Government's total holdings. And, we have already shown our willingness to sell off non-strategic assets (such as Skydome and Suncor).

Naturally, so as not to disrupt markets, I will disclose the sale of other non-strategic assets only after decisions have been finalized. I am also quite confident in the numbers for the years ahead. Our economic projections are not out of line with other forecasters. And data of the last three months show promise of a recovery.

We worked very hard to ensure we would have the funds to meet Ontario's three priorities—jobs, services and controlling the deficit—and most of the funds for addressing these priorities have come from within government. As I said, we reduced the growth in government spending by $3 billion this fiscal year.

In the end, this wasn't enough to meet Ontario's needs while controlling the deficit at the same time, and it was necessary to raise some taxes, about $770 million in total for the 1992 fiscal year. But for every $1 in new taxes this year, we saved $4 in costs by better management and greater efficiency.

And we raised the taxes in as fair a way as possible. Those taxpayers who can most afford to pay will be shouldering most of the increase, but almost everyone will have to pay more.

Many of this Budget's tax changes are designed to encourage business investment in new equipment and new technologies so that Ontario will be well positioned as the recovery gains speed. I'd like to highlight some of the tax changes in the Budget.

- Reduced corporate tax rate on manufacturing and processing sectors as well as farming, mining, logging and fishing profits: from 14.5 per cent to 13.5 per cent.
- Increased capital cost allowance rate for investment in new manufacturing and processing machinery and equipment: from 25 per cent to 30 per cent.
- Broadened eligibility under the R&D Super Allowance.
- To encourage the small business sector, we are reducing the corporate income tax rate on small businesses by half a percentage point to 9.5 per cent, allowing small businesses to pay the Employer Health Tax once a year, instead of quarterly, and

complementing the small business financing program announced in the recent federal budget.

The banks have fared better than other sectors of our economy during this recession; overall, their profit levels have increased. In 1991 banks represented two per cent of Ontario's GDP, yet earned 20 per cent of profits. During these difficult times, the banks are the most able to increase their contribution to the province.

That's why we imposed a temporary income tax surtax of 10 per cent on banks. In addition, we are increasing the capital tax rate paid by banks from one per cent to 1.12 per cent and providing an offsetting adjustment to capital tax paid by bank mortgage subsidiaries. Thus temporary surtax will sunset October 31, 1993.

Another group, the life insurance sector, has paid little or no income tax since 1969 despite healthy profits; both Ontario and the federal government are moving to correct this situation.

And lastly, we are preparing a technical paper which will make recommendations regarding a corporate minimum tax for Ontario. We will release the technical paper in the fall, and will consult on its recommendations before legislation is introduced. Let me assure you there are certain principles that will guide the design of such a tax:

- Inter-corporate dividends and equity income would be excluded (to avoid double taxation).
- Loss carryovers would be allowed.
- It would be sensitive to concerns regarding retroactive taxation.
- It would be creditable against regular income tax liability.
- Small business would be exempt.

Despite perceptions, when all corporate taxes (including payroll taxes) are included, Ontario's corporate tax system is competitive with other provinces and states. And the tax measures announced in this Budget will further enhance Ontario's tax competitiveness.

Personal Income Tax is one of the fairest taxes we have, in that it is based on the "ability to pay." After all the changes to the Personal Income Tax are phased in, by 1993, the changes won't have as much impact as at first glance. In fact, for lower and middle income taxpayers— less than $53,000 per year— there will be no increase in the combined federal and Ontario income tax in 1993 as a result of this Budget. Only those earning more than $53,000 (or 10 per cent of taxpayers) will contribute more on an annual basis. And even then, in 1993, a single earner (married with two kids) making $60,000, will pay only a $1 week extra in combined federal and provincial taxes.

I would like to conclude by summarizing how the 1992 Budget will strengthen Ontario's investment climate and economy. We have introduced policies designed to encourage investment in new manufacturing equipment and in research and development. We have set up a Sectoral Partnership Fund which will devote $150 million over the next three years to fund co-operative industry projects that lead to higher value-added jobs.

The Government is already working in many important industries to build Ontario's competitive fundamentals:

- The Telecommunications Advisory Committee is working to help Ontario become a world leader in the development and application of telecommunications.
- The Ministers of Energy, Environment and Industry, Trade and Technology have been working with private sector firms and communities to support the development of green industries and markets.
- The Minister of Industry, Trade and Technology is also working with the automotive industry on ways that automotive parts producers can successfully meet the challenges of restructuring.

We have made a large commitment to investing in Ontario's infrastructure, and thus spending will benefit the construction industry and other related sectors.

This budget introduced a comprehensive jobs strategy, the largest commitment ever in Ontario to skills training. This will assist in Ontario's industrial restructuring by ensuring business has access to a well-trained labour force.

Besides offering a trained workforce, we also are eager to ensure that Ontario's businesses have access to diverse sources of investment capital. And so we are making some changes to the Labour-Sponsored Venture Capital Corp so that people can contribute more—$5,000, up from $3,500 a year—and so larger firms will be eligible for investment, firms with up to $50 million in assets.

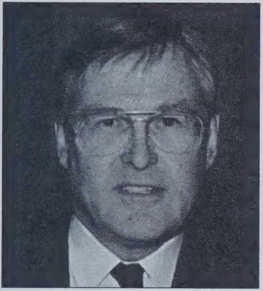
We are also starting the process of discussions for the Ontario Investment Fund—another potential source of capital for small and medium-size business.

In summary, we believe this is a Budget that meets Ontario's priorities in a fair and balanced manner. It provides for immediate job creation, while investing in the future to ensure more jobs. It expresses our confidence in the private sector as a partner in job creation. It recognizes that the preservation of public services requires us to mange our spending in an efficient manner. It shows our commitment to investing in the province while recognizing deficits must be controlled. And it reaffirms our commitment to taxes based on the ability to pay.

The 1992 Budget shows our faith in the economy. The recovery is coming. And Ontario will have many strategic advantages in that recovery—our people, a modem infrastructure, abundant natural resources, universal education and health care, and a prime location in the North American marketplace.

The 1992 Ontario Budget is an action plan to support our strategic advantages.

The appreciation of the meeting was expressed by John F. Bankes, Immediate Past President, The Empire Club of Canada.



May 29, 1992

A joint meeting of
The Empire Club of Canada
and The Canadian Club of
Toronto

The Hon. Michael Wilson

Minister of Industry, Science and Technology, Minister for International Trade and Minister Responsible for Investment Canada

INVESTING IN CANADA'S FUTURE

Chairman: **Isabel Bassett**
President, The Canadian Club of Toronto

Michael Wilson

It is both a privilege and a pleasure to be invited to speak once again before The Canadian Club of Toronto and The Empire Club of Canada. A privilege, given the men and women who have preceded me on this platform over the years, and a personal pleasure, since it gives me the opportunity to see many old friends and colleagues.

Most, if not all of us here today, will be familiar with the famous aphorism of Sir Wilfrid Laurier that the 20th Century would belong to Canada. Fewer may know that Sir Wilfrid first made that prophecy in a 1904 Canadian Club address in Ottawa.

It was a bold statement, to say the least. Downright unCanadian, given our tendency to downplay our accomplishments. And if you measure greatness in terms of global dominance, the statement rings hollow nine decades later. But if you measure greatness in terms of social justice, peace and prosperity, Sir Wilfrid was surely not far off the mark. It is worth reminding ourselves of Canada's achievements:

- Despite our self-image as a drawer of water and hewer of wood, we have, in fact, evolved into an advanced manufacturing and services economy. We are the seventh largest industrial economy in the world and have the second highest standard of living after the United States—all of this from a country that ranks 31st in terms of population.
- Over the past 30 years we have recorded the second highest rate of economic growth amongst the G-7 countries; and the fastest rate of job creation.
- According to the United Nations' Human Development Index, Canada was ranked as the best place to live among OECD countries in 1991.
- We have the third highest overall level of labour productivity in the world, behind only the U.S. and the Netherlands.

This last accomplishment is one that few Canadians seem to comprehend. They don't realize that our living standard is 25-per-cent better than that of the Japanese because our level of productivity is some 25-per-cent higher. For it is productivity that is the ultimate determinant of Canada's relative standard of living. I will say more about growth, or lack thereof, in productivity later.

But I am not here to glorify our past accomplishments, nor to minimize our current problems. Nor am I here to "do a Laurier" and predict that the next century will belong to Canada.

But I will say this.

The 21st Century can belong to Canada if, and only if, we are prepared to invest in our future.

Investment in our future was one of the important considerations behind the launch of our current Prosperity Initiative—an initiative designed to increase public awareness of the challenges and choices before us; to generate practical advice from Canadians; and to build a national plan of action to secure our future together.

The Initiative is our response to some undeniable facts of modern Canadian life.

- The fact, proven so ably by the Japanese, that national prosperity can't be built on short-sighted, short-term actions, whether taken by executives focused on the next quarter, or politicians focused on the next election.
- The fact that any long-term strategy in a democratic society requires broad public support, which in turn requires broad public awareness of the choices before us.
- And the fact that, in this fast-paced and complex world, many of the solutions to our national problems rest less and less with the state and more and more with individuals and firms.

That is why we launched our Initiative with not one, but two goals in mind.

The first was to ask Canadians what the country could do for them—to seek advice about what government can do to improve the competitive environment in Canada.

And the second goal, of even greater importance, was to prompt Canadians to think about what they can do for themselves—to encourage individuals and companies to do a critical self-examination—so they can enhance their own competitive positions.

This emphasis on private sector initiative is not to say that there is no role for government. Of course there is. Rather, it is to say that in the end, our collective future won't be determined by state action, but by the countless, daily decisions taken by thousands of Canadians.

The importance of private sector decision-making is perhaps best seen in our recent manufacturing performance.

According to estimates by the Economic Council of Canada, the competitive position of Canada's manufacturing sector slipped badly during the 1980s. And this slippage cannot be blamed on a so-called high dollar. For, while the appreciation of the Canadian dollar since 1986 has proven troublesome for exporters, the Canada-U.S. exchange rate was virtually the same at the end of the decade as at the end of the 1970s. Something else must have been afoot.

The stark reality is that unit labour costs in the manufacturing sector became seriously out of line with those of our major competitors during the 1980s. Where unit labour costs in Canada increased by more than 50 per cent during the decade, unit labour costs increased barely at all in the United States. The much slower growth in productivity in Canada during the past decade, and a more rapid rate of inflation, were the major factors behind this troubling development. While our level of productivity is high, it is our poor productivity growth record that has allowed our competitors to catch up.

Fortunately, there are signs that Canadians are addressing this challenge. We all know our economy is undergoing an extensive restructuring to adjust to the new demands and realities of globalization—that is, the growing integration of world economies. The United States experienced a similar degree of restructuring in the early 1980s, and it is now benefitting from a markedly stronger trade performance. And there is mounting evidence that Canada's restructuring, difficult as it has been, is beginning to generate similar benefits.

As reported recently by Statistics Canada, manufacturing exports as a share of total exports have increased steadily in recent years—from 32 per cent in 1980 to 47 per cent in 1990—evidence which belies the myth that Canada is deindustrializing. And we saw recently that exports are reaching record levels, particularly into the U.S.—evidence that the long term benefits of the FTA are beginning to emerge.

Rising manufacturing exports amidst rising exports are good signs. But we are far from out of the woods. So today I would like to outline the next step in the Prosperity Initiative—our plan to focus public attention on the National

Investment Challenge before Canadians—the challenge of increasing both the quantity, and the quality, of our investments in tomorrow.

It has been said that economics is a paradox: to have national prosperity we must spend; but to have individual prosperity we must save. It is a clever quip. And, on first reaction, the expression rings true, given the important role played by consumer spending in a modern economy.

But, on second thought, I believe that even the Keynesians among us would agree that there really is no paradox to economics. Because it is simply not true that sustained prosperity can be secured through spending—at least if by spending we mean consuming for today. Rather, future prosperity can only be created through investing for tomorrow—through investing in people, in machinery and equipment, in new technologies, in infrastructure and in trade promotion.

Such business and public investment may not be a panacea for improving Canada's productivity performance, but they are definitely essential conditions for keeping up with international competition and improving our standard of living.

Now we don't know the precise magnitude of the savings and investment challenge before us, for it very much depends upon the relationship to productivity, and how determined we are as a nation to invest in our future. But we do know we will have to save more, invest more and invest more intelligently in the future than we have done in the recent past.

Take, for example, our savings performance over the past two decades. Unfortunately, the record shows that the quantity of our collective national savings has been inadequate. If we compare ourselves only with the Americans, we look like big savers. But if we raise our sights and compare ourselves to the Europeans and Japanese, the picture is not so rosy.

There's no comfort in saving twice as much as the Americans when we save less than half as much as the

Japanese. And that is exactly what has happened, with a 20-year net national savings rate of six per cent in the United States, 11 per cent in Canada and 23 per cent in Japan.

As a result of our propensity to spend rather than to save, we have created a problem for ourselves. A manageable problem, but a problem nonetheless. By relying on foreign savings rather than our own to finance our way of life, we have collectively built up a foreign debt of over $260 billion—a burden which we must now carry into the future.

In some respects this is a chicken and egg situation. We need the use of foreign savings today, but it is in our long-run interest to work towards eliminating this debt.

One of the ways to manage our foreign obligations is to differentiate between foreign portfolio and direct investment. For while foreign portfolio investment can be moved, often at a moment's notice, foreign direct investment can strengthen Canada's competitive position through technology transfers to domestic firms, the provision of international management expertise and product innovation and by providing access to new international markets. And we should also remember it is usually investment in the long run.

If our past savings effort has been below average, how have we fared in terms of investment?

First, let's talk quantity.

The facts are that the quantity of our past investment has been around the OECD average, but well below Japan and Germany. Above average in terms of investment in education. Below average in terms of investment in research and development. And average in terms of physical investment per worker.

But that performance raises a very important question. Given that we live in a vast country with a small population, a cold climate and many capital-intensive industries, is an average amount of investment per worker really good enough?

I would suggest that "not bad" is not good enough, since it is only logical that we should have more investment per worker in Canada than in small countries with denser populations, warmer climates and fewer resource industries.

And I'm not talking about Japan, with its extraordinary investment performance. I'm talking about matching countries like Belgium, Holland and Denmark. After all, those countries don't have to build and maintain 4,000-mile-long roads and railways. They don't have tarsand plants and nickel mines and paper plants. And they don't need buildings which can keep out Arctic winds or fleets of snow removal machines or all the other large public investments which must be borne by our small population. Nor do they have a record of the strongest job creation in the G-7, which puts added pressure on how much Canada needs to invest.

These realities of Canada are one reason why we need more investment per worker to keep pace. Here's another. Even if our current investment performance were satisfactory, it is clear we will require even more in the future with an aging population needing income security, a large environmental bill still to be paid, and an aging system of roads, sewers and the like.

In fact, some economists say we will have to raise the quantity of our investment towards Japanese levels—from the 20s, to the high 20s, or even 30 per cent of our gross domestic product. As David Slater, former Chairman of the Economic Council of Canada, has pointed out in his study for Investment Canada, this will be manageable, but it will not be easy, since gross investment as a per cent of GDP averaged just over 24 per cent only once for any five-year period since 1950.

But I would suggest that we not only can do it. We have to do it, if we wish to keep pace. Take, for example, the Japanese challenge. In terms of quantity of investment, it is way ahead of Canada and the U.S. Ken Courtis, Chief Economist of the Deutsche Bank in Tokyo, estimates that Japan now invests 20 per cent of its gross national product in new plant and equipment—about twice the U.S. percentage and one-third higher than that of Canada.

He suggests that, between 1986 and 1991, private-sector plant and equipment investment in Japan's domestic economy exceeded $3 trillion, with another $500 billion in research and development.

Impressive numbers, to say the least, numbers which can only be matched in relative terms through a collective effort led by the private sector; other players in the economy simply cannot supply the required effort.

So we face the challenge of increasing the quantity of our investments. What about their quality?

A close examination reveals some disturbing facts about the quality of our past investments. For our overall average performance, in terms of quantity, masks the fact that Canada is second in investment in residential construction, but 21st in investment in machinery and equipment. Furthermore, qualitative analysis found in the World Competitiveness Report suggests that Canada may be lagging in other more intangible areas of investment.

For example, Canadian managers rank behind other industrialized countries in adopting critical competitive practices and new business strategies, such as quality management and international orientation.

There are also concerns about whether Canada's sectoral investment has been well placed to secure best future return. While it is easier to second-guess private-sector performance than to actually be in the corporate "driver's seat," we must begin to question whether some of our sectoral decisions have been the right ones and whether they were made on the basis of sound information about the future. Because, as we know, investments in physical capital are largely irreversible. A pulp and paper mill cannot be turned into an auto plant and a machine tool cannot be turned into a computer.

So the answer to the question I posed earlier is surely that a "not bad" level of investment is simply not good enough if we wish to secure our future prosperity.

That is the message which we plan to carry to Canadians during the month of June—a message which complements the ongoing work of the Prosperity Steering Group. And the importance of this investment challenge is why I am designating June as Investment Month. Through five Forums in Vancouver, Winnipeg, Montreal, Halifax and Toronto, we want to hear from informed Canadians about how we can improve the quantity and quality of investment in the country and whether the investment climate in this country is conducive to making these changes.

And through the publicity generated by such events, we hope to spread the news of the critical role investment plays in securing our future and the challenges and choices confronting Canadians and Canadian firms.

Through focusing on four themes:

- the National Investment Challenge,
- Making Quality Investments,
- Seeking Foreign Investment; and
- Canadian Firms in Global Markets,

we hope to generate practical recommendations from participants, to identify investment priorities, and to foster greater awareness in the general public of the investment challenge before us.

I am confident in this process because it has worked well in the past. Last November we sponsored the first ever National Services Month to highlight the important contribution of service industries to the overall competitiveness of the Canadian economy.

At the National Services Conference here in Toronto I invited input from the private sector and have since received excellent advice. We are moving to react. We will again be designating November as National Services Month and will be offering a range of activities designed to help service firms identify market opportunities, adopt new technology, and embark on an ongoing process of continuous improvement and total quality.

What are the investment messages that I hope will be sent and received during the coming weeks?

The fundamental message is that Canada faces a National Investment Challenge. All Canadians must participate in responding to these issues. And for some, this will require making a fundamental change in the way stakeholders interact in the economy.

We hope more Canadians learn from the success of the Japanese—that there is a clear link between savings, investment and prosperity. People who save and invest, prosper.

We want more Canadians to understand that it's not just how much we save and invest, but how, and where. Simply put, we need to secure the best returns in the most productive areas.

Management must be willing to work with labour to help accommodate required adjustment in the labour force. And labour must be willing to adopt investments in innovation and technology. The point is straightforward but difficult to realize. Management and labour must work together to secure and create good jobs.

Governments must do better in controlling their deficits. One of the most important ways of increasing investment is to reduce government deficits so that individual savings can go to private investment in plant, equipment and new technologies and not to paying the current deficits of governments.

We want to promote further understanding about the business opportunities available to Canadian firms when they reach out and join with international partners to form strategic partnerships.

And finally, we want to spread the word that, in today's world, investment means not only investment in physical capital and buying new plant and equipment. It means investment in human and intellectual capital as well. It means investment in training people. It means investment in technology and research, and it means investment to foster trade—whether in the form of market research to understand the needs of a potential customer or direct investment abroad to get closer to the customer or to access business inputs.

Can we meet the savings and investment challenge and secure our prosperity into the 21st Century? Yes we can. There's no doubting our ability to do so.

Will we meet the challenge? Will we be able to forge a common vision of the Canada of tomorrow and work together to realize that vision? That's a tougher question. Because it is not a question of ability. It is a question of attitude. But I, for one, believe we will.

I believe we will because the process of securing our future prosperity is well under way, with many of the necessary policy reforms already in place. Policies like sales tax reform, freer trade, a low inflation monetary policy and deficit reduction may mean short-term political pain, but they also mean long-term national gains. And we should take heart that Canadians are beginning to address how we can invest our scarce public resources more wisely, whether through health-care reforms, or changes in our educational and training systems.

I believe we will because Canadian firms are already making the necessary changes which will allow our firms to survive and thrive.

I believe that more and more Canadian businesses are becoming aware of the need to "act globally" and are looking to joint ventures and other forms of strategic alliances to seize opportunities in the international marketplace.

But, even more importantly, I believe we will secure our future because more and more individual Canadians want to make such changes.

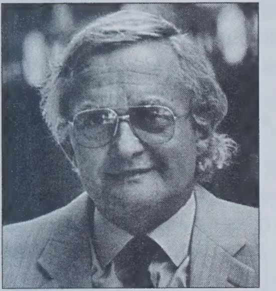
Based on what I see around me, and what I've heard during the Prosperity consultations, I know that more and more Canadians recognize that how much they consume does not determine the quality of their lives. Canadians are realizing that we have the opportunity to enjoy an even higher quality of life if we consume less, save more, invest more and spend our money more wisely.

And I believe the current Prosperity Initiative can make a difference. For by broadening and deepening public understanding of the challenges before us, and by taking the time to forge a consensus on what we must do to meet these challenges, I believe the Government of Canada can help Canadians shape a prosperous future for themselves, and for our country.

I hope you do too. And I look forward to your participation in meeting the challenge before us during Investment Month and beyond.

Thank you.

The appreciation of the meeting was expressed by Robert L. Brooks, President, The Empire Club of Canada.



June 4, 1992

David Perks

Publisher of the *Montreal Gazette*

CELEBRATING MONTREAL

Chairman: **Robert L. Brooks**
President, The Empire Club of Canada

Introduction

Ladies and gentlemen, Montreal was founded 350 years ago by Samuel de Champlain. One of the oldest cities in North America, Montreal can also boast of being among the most cosmopolitan on the continent. The city has seen several Canadian firsts including the first Olympics, the first World's Fair and the first stadium that cost over $1 billion and still has a hole in its roof.

Falling as they do during Canada's 125th birthday, the Montreal celebrations underline the rich history of our country. Both founding cultures have left their marks on the city. They are apparent in its architecture, its culture and its institutions.

One of its older institutions, founded 214 years ago, is the *Montreal Gazette*. As the primary English-language newspaper in Quebec, it reaches 178,000 Quebecers every day.

Our guest today is Mr. David Perks, publisher and ex-officio head of the editorial board of the *Gazette*.

Mr. Perks is a product of Canada's two founding cultures himself. Although he was born in Toronto, I understand he decided early in life to move to Montreal because the Habs stretched the hockey season so much further there. While he's certainly been right so far, perhaps Pat Burns knows something he doesn't.

In addition to his current responsibilities at the *Gazette*, he is also chairman of Lower Mainland Publishing Limited, a chain of weekly newspapers in B.C. Prior to that he was vice-president of finance and administration at Southam Inc., and behind that are senior management positions in finance and communications going back 20 years.

But I'm told his real passions are rock music and cowboy boots. In the former category, his favourites include Rod Stewart, the Kinks, and the Grateful Dead. I must be missing something here as my own teenagers can't get enough of them either. In the latter category, he favours the beige, pointy kind. Is it any wonder this is a man who considers his own views too radical for the editorial board he heads?

Mr. Perks is also affiliated with several newspaper and non-profit environmental associations, including: vice-president of the Association of Daily Newspapers of Quebec; member of the board of directors of Collecte Selective Quebec, an organization promoting selective recycling in Quebec; member of Fondation Quebecoise pour l'Environnement, a non-profit foundation promoting public education about environmental issues.

But, it's as a director of the Montreal 350 Anniversary Corporation that David Perks has come here to share his unique views on being an English-speaking Montrealer. I might add that in this capacity he has persuaded The Empire Club to allow today's promotion, a very rare event indeed.

Please join me in welcoming him back to the city where he was born.

David Perks

It's a great pleasure to be here in Toronto again. I have a tiny technical problem, I can't see my notes with my glasses on and I can't see you with them off. So if I fumble back and forth, I trust you'll forgive me.

I'm here with you today because almost a year ago I volunteered to be a director of the non-profit corporation that was running Montreal's 350th celebration. When the mayor of Montreal appointed me to this board, one of the concessions he won from me was that I would take on some speaking engagements outside the province of Quebec, to promote Celebration 350.

It's very easy to say yes to something that's a year out in the future. And then all of a sudden you find yourself actually doing it.

Montreal is 350 years old. Canada, by comparison, is also having a birthday this year, its 125th. And the difference in ages is not necessarily irrelevant to what I'm going to say. In addition to my visit here for Celebration 350, I'm also here as a Montrealer and I find, looking around the room and talking to various people at the head table, that my contact with Montreal is probably less than the average in this room.

I was born in Toronto, raised in Peterborough, worked 23 years in Toronto, and moved to Montreal about two and a half years ago. A large number of people here were born in Montreal, have lived in Montreal and have far better ties than I do. But I'm one of the very few Montrealers who actually chose to go there in the last three or four years. And, as recently as six months ago, I turned down an opportunity to leave. So while my roots may not be as deep in Montreal as many of yours are, my commitment certainly is there.

Before I talk to you about the celebrations, I'd like to take just a couple of minutes and talk to you about Canada's 125th birthday, and my views of where we might be going. I'd like you all to think for a second about the most bizarre reconstruction of the Canadian Senate that you could imagine.

Sometime in the next few months we're probably going to be asked to vote either in a Quebec referendum or in a Canadian referendum, or in a Quebec general election or a Canadian general election, to stand up for a Canada that's very different from the Canada we know.

It will be a Canada that includes a reconstituted Senate. It will be a Canada that includes probably something for Aboriginals. No one will be able to tell quite what. Cynics will probably say that there will be an aboriginal policy in there that will do no more than prevent, Elija Harper from standing up and blocking whatever accord this is, if an accord is reached.

We certainly won't know whether the aboriginal clause is going to be of any benefit to our native people, or whether it's going to be of any benefit to Canada. But there will be a number of clauses like that.

I think the number of people that are going to choose the unknown by voting no, as opposed to choosing a very uncertain future by saying yes to Canada, is going to surprise a lot of us. Among my other responsibilities, I am a director of the Angus Reid Group; I bought for Southam, about three years ago, a controlling interest in Angus Reid.

It's one of the few things that I bought for Southam that the Competitions Tribunal has not bothered to investigate, for which I'm very grateful.

Angus Reid did a world poll in 1992 in association with CNN. The Angus Reid Group polled citizens from 16 countries on a variety of topics. It turned out, with respect to Canada, that only 17 per cent of the people polled were satisfied with our national government. This left Canada tied for 14th out of 16 countries. Not a very high level of support for our national government.

And when asked whether the government has been becoming more responsive to the needs of the community, only 19 per cent of Canadians felt that the Canadian government was responsive to our needs. That tied us for last in the sixteen countries polled.

When you think of those things, and you think of the popularity of the various levels of government, some of my colleagues at the *Gazette* believe that the chance of Quebec separating is as high as one-third. One-third is a very scary number, if you think about something as serious as the breakup of Canada.

Now, if we don't have a whole lot of faith in our governments, and apparently we don't, we're going to have to find something or somebody to trust. And I think that means that the people of Quebec, not the government, are going to have to trust Canada.

And there's a lot of suspicions about Canada, what Canada is trying to do, whether Canada cares about Quebec. I'm sure there is a lot of suspicion in Canada as to whether Quebec is merely trying to blackmail Canada, which would make the rest of Canada understandably angry.

We're going to have to, I think, trust each other. And to trust each other we have to work harder at getting to know each other better.

Now one of the good things about the Celebration 350 in this summer of 1992 is that it provides an opportunity for a lot of people to come and visit Montreal. Montreal is a multicultural bilingual city. You don't have to be concerned if your French is no better than mine. You will find a very large and vibrant English-speaking community. The *Gazette*, each week, is read by 733,000 adults of whom about 20 per cent are francophone. The rest are English or other ethnic, but English as a second language in preference to French.

That's a very large number and I think that sometimes the rest of Canada is not aware that Montreal remains Canada's third largest English-speaking city.

The party that Montreal is having this summer is wonderful. We're going to show you a film in a couple of minutes. It starts out with a 60-second TV commercial followed by a 12-minute film on the virtues of Montreal. It was made two years ago. The last two or three minutes has a distinct business flavour to it.

I do hope that you will come to Montreal and I do hope that you will encourage your friends to come to Montreal, to see what a wonderful city it is, enjoy yourselves, take back fond memories and help the process of healing Canada. Thank you very much.

The appreciation of the meeting was expressed by Peter Hermant, President, Imperial Optical Company Limited, and a Past President, The Empire Club of Canada.

June 23, 1992

A joint meeting of
The Empire Club of Canada
and The Royal
Commonwealth Society

William McCormack

Chief of Police, Metropolitan Toronto Police Force

CANADA, MY BELOVED COUNTRY OF CHOICE

Chairman: **George Hanson**
Chairman, The Royal Commonwealth
Society, Toronto

Introduction by Major General Bruce Legge

Your Honour, My Lord The Chief Justice, the mayors of the cities of Metropolitan Toronto, distinguished guests and members of The Empire Club of Canada and The Royal Commonwealth Society of Toronto, it is a great honour for me to introduce the Chief of Police of Metropolitan Toronto, William McCormack, to this twelfth annual Canada Day luncheon.

He will speak on the subject, Canada, My Beloved Country of Choice. Now this is quite an accomplishment because Mr. McCormack has five countries to love. He was brought up in Mauritius, a sister Commonwealth nation, he was trained for policing in England and served in the British Merchant Navy as a radio officer during the Korean War. He graduated from the University of Dublin in Ireland. He served with the Bermuda Police Force for five years and there married a Canadian tourist, Jean Pernick. They are now the proud parents of five children and six grandchildren.

This Canadian connection brought him to the Toronto Police and after 30 years of distinguished service as a detective in homicide, as a detective-sergeant, as a superintendent in internal affairs and then in public affairs, he was promoted to Chief of Police in 1989.

However, as the great English writer, W. A. Gilbert, wrote: “When constabulary duty’s to be done, a policeman’s lot is not a happy one.”

Everyone in this room, from the youngest girl or boy in the cadets to the Sunnybrook veterans, to the professional and business executives, to the Chief Justice, will know the harshness of police duty. Even my favourite Canadian anarchist, Emma Goldman, knew that.

Another Canadian movie actor, Victor Jory, had the sharp phrase: The law keeps the police in handcuffs.

Now Your Honour, Canadian actors seem to know a lot about the police. Max Senate, who became a multi-millionaire making slapstick movies, said: “When the audience is thinking, they can’t be laughing” and he observed “In Canada, where I was fetched up, life was cold and serious.”

Canadians are not congenitally comic. Ever hear of them cracking wise at the Royal Canadian Mounted Police?

Now the police have never lacked critics but in the days of the great Queen Empress Victoria Regina, Sir Robert Peel organized the Metropolitan Police of London and said the police are the people of London and the people of London are the police. William McCormack has followed that essential example in Toronto.

In the reign of that same great Queen Victoria the government of Canada was endowed with the awesome duty of producing peace, order and good government for all Canadians. And when Ontario was searching for a motto she decided on: Loyal She Began and Loyal She Remains. So it is in both cases with the Toronto Police of Chief McCormack.

Critics are here to criticize and one of the greatest was the movie tycoon Sam Goldwyn who used to write to all his producers when they got a task: Spare no expense to make everything as economical as possible. And so it is, Chairman, with the police providers. And on a droll note, is there a lesson for these providers in this anecdote?

Sam Goldwyn was absolutely furious when David Niven rejoined his regiment in Britain in 1939 to fight the Nazis, thus breaking his movie contract with Sam Goldwyn. Goldwyn bitterly telegraphed Niven: “I’ll cable Hitler and ask him to shoot around you.”

Chief McCormack, may everyone shoot around your fine officers. May it please Your Honour, William McCormack, a Knight of the Holy Sepulchre, the Chief of Police of Metropolitan Toronto, and a Canadian by choice.

William McCormack

Ladies and Gentlemen I am not only humbled but honoured beyond measure to have this great opportunity to speak on a subject that I think the word pride alone would not begin to describe. I am extremely honored to address The Empire Club of Canada and The Royal Commonwealth Society here today on a subject that is very near and dear to all of our hearts, the subject of citizenship.

I think it's based on the word responsibility; I think it's based also on the word respect. And when you look at these words, they apply to this great nation to which I have the honour to belong as a citizen, the nation of Canada.

If I may I will begin by telling you a little story. I remember, at a very young age, reading about Canada. And especially about the great police force, The Northwest Mounted Police and then the Royal Canadian Mounted Police. And I remember, because of the traditions of my own family, having been involved very strongly in policing throughout our own lives including my father.

I was determined at that very young age to, one day, come to this great country and become a member of the police force.

I served with the Bermuda police force and the very fine officers of the Metropolitan Toronto Police force and I am extremely proud and honoured to serve you as Chief. And, you will have to forgive me, I did apply to the RCMP. That was while I was serving in Bermuda.

But my path was not to go that way. My path changed because I met and married a Canadian from Toronto. She always accuses me of using her as a stepping stone to Canada, not true.

When I finished my contract in Bermuda and came here and was accepted as a citizen of this great country, I joined the Metropolitan Toronto Police Force. In those days, the RCMP did not accept married people.

From that day on, I have seen what I believe to be, without a doubt, the greatest country in the world—in its acceptance of those people from the many shores of the world, in its acceptance of the many areas of culture.

Hence we have a country made up of many immigrants from many areas of the world. The native peoples of Canada are the only true Canadians; we all know that. But when you examine the word true Canadians, when you look at the contributions from all those nations, the opportunity that has existed, the development that has taken place, that has eventually resulted in this great nation, then you say to yourself where else could you see this type of tranquillity, this type of a nation built on the foundation of the greatness of its immigrants.

I am extremely proud to have been one of those immigrants. Not only am I proud to have been one of those immigrants, I am also very happy to be able to say to you that my five children are Canadians, my wife is Canadian and that I look forward to the future of Canada—to the future of the tranquillity of the nation, to the future of that symbol of peace—peacekeeping throughout the world.

I would be remiss if I did not mention also the pride I feel in the traditions of the Crown, in traditions of the Military that is so very well represented here today. In the memory of two World Wars and the Korean War. The people of Canada are involved to a degree above and beyond the call of duty and are immortalized in the cause of freedom of the world, part of what we take for granted.

Let me remind you that if it were not for the citizens of this great country, freedom itself would have been severely threatened. In terms of the service we receive from coast to coast from our police forces to maintain our freedom, to maintain our justice, to maintain our right, that is something else that stands out worldwide. That stands out in terms of fairness, in terms of justice.

I bring these things to your attention because they are the things I feel when I stand before you. I have not prepared a speech today; what I am saying to you comes from me. Comes from the feelings of having had the opportunity to choose Canada as my beloved country of choice. To choose this great nation to become a policeman, to have the admiration for its great people, and also to continue to serve.

And lastly if I may just for a moment look at my own police force, look at the representatives here today, the senior officers, command officers of our force. The men and women of the Metropolitan Toronto Police Force that serve you on a daily basis. The civilian members of the Metropolitan Toronto Police Force, some 2,000 who are the backbone of support.

We in this great community of Metropolitan Toronto are successful because of their unity, because of their loyalty, because of their devotion to their duties and the manner in which they are drawn from this great community.

Ladies and gentlemen, I stand before you extremely proud to be a Canadian on this 125th birthday of Canada. I sincerely hope that all of the effort that we can put together, to support this great nation, will be there for the future. And I sincerely hope that whatever small contribution I have made can be put alongside that great contribution made by all of those great people that made our history.

The work will go on, the cause will endure.

The appreciation of the meeting was expressed by Robert L. Brooks, President, The Empire Club of Canada.

September 22, 1992

A joint meeting of
The Empire Club of Canada
and The Canadian Club of
Toronto

Roberta Bondar

Canadian Astronaut, Payload Specialist, Canadian Space Agency

THE ADVENTURE OF SPACE (A SLIDE PRESENTATION)

Chairman: **Isabel Bassett**
President, The Canadian Club of Toronto

Introduction

I am delighted to make a few introductory remarks about our guest of honour. Our speaker today is one who has stepped into the great realm of the future and has come back to tell Canadians all about it. As the first Canadian woman in space and only the second Canadian, Roberta Bondar has been in the vanguard of Canada's role of playing a legitimate part in this huge, ever-inquisitive human species to explore and examine the great unknown.

No one could be better qualified for this important role than Dr. Roberta Bondar. First she is highly educated. She holds a Masters in Science degree from the University of Western Ontario, a PhD in neurobiology from the University of Toronto and a degree in medicine from McMaster University.

Secondly Dr. Bondar is a keen sports enthusiast and an accomplished hiker, canoeist, cross-country skier, and balloonist, among other things. Lastly, and perhaps even more important for someone working in a stressful condition, Dr. Bondar is one of the most decent, approachable and unspoiled people that I have ever met.

Little wonder that of 2,400 applicants for the job of astronaut in 1983, she came up a winner. The Canadian and Empire Clubs are proud and happy to have this remarkable woman address us today because, above all else, she represents that trusting spirit combined with courage that we would hope is embedded deep in all Canadians.

Ladies and gentlemen, would you join me in welcoming our guest of honour and speaker today, Roberta Bondar.

Roberta Bondar

Thank you very much Isabel, and thank you very much to the Canadian Club and Empire Club for asking me to come here and address so many wonderful Canadians. What I'd like to do today is show you some lovely slides and talk a bit about my experiences. Before I do there's always a commercial. I wanted to tell everybody who's listening and who's watching today about a very important event occurring in Canada between October the 16th and the 25th—National Science and Technology Week, of which I happen to be a patron. It's the third annual one to raise the awareness of the essential role that science, technology, and engineering play in our nation's ability to compete internationally and in our quality of life.

I also wanted to let people know that we can't do this alone in Canada. It's not just a government project, we're going to have to be very thankful to our corporate sponsors and this year we're very pleased to have two. They are Spar Aerospace and IBM Canada.

They have contributed both money and their technical support to the National Science and Technology Week and we would like to thank them for their support.

I hope there will be time at the end of my slides to have questions from the audience. I can answer one right now—the food is not as good as it was here today.

So with that, why don't we start up? This is the actual launch day in Florida. It was a crisp January morning and it was an eight-day mission, landing at Edwards Air Force Base in California January 30.

People ask me what it was like on the morning of the launch. Well this is the exact position we were in during the launch phase. We were on our backs, pointed up towards the sky and when the three main engines fired it was just like the moderate turbulence you get as a commercial airliner comes in to the airport.

But when you're on your back, you feel this massive steel structure start clanging on the pad; you realize there's a tremendous force beneath you. And very quickly the next thing you feel is the vibration from the solid rocket boosters. It's like someone taking you by the shoulder and shaking you. Everything is shaking. We have our helmets on but we still hear the noise and for two minutes and six seconds those solid rockets fire, before they burn out and tumble back into the Atlantic. During this time, of course, everyone has their fingers crossed because people know what happened to the Challenger. This is certainly a very difficult time for all of us. This is an experimental system and we have a lot of confidence in its operation but it is not to be taken for granted.

Each launch and each landing you breathe a sigh of relief.

So the solid rockets break away and you go up and end up about six minutes later in space. Canada, of course, participated in this flight along with scientists from Japan and the United States; we had 14 countries represented on this flight. They all provided experiments, so when you messed up you had to be careful who was going to come after you when you got back.

Some of the Canadian things we did in flight were experiments that had never been done before. This is me having my height measurement taken. I grew 5 centimetres but managed to lose it when I got back, unfortunately. I had always wanted to be on the National Women's basketball team. In space flight you have a shift of fluid into your head and chest and, probably with a lack of gravity, you're able to keep a straighter spine than down here on the ground.

We spent 14 to 16 hours a day, sometimes, trying to get all the scientific work done. An unusual environment in which to work. We had to make sure all the food was tied down. Here I am, you can see the tortilla floating up there. And you can see some dehydrated strawberries in the plastic dish that we had to rehydrate. Coming back from space flight, you can get quite sick if you don't take enough fluid in. In space you lose two litres of your five litres volume. When you come back, you need those five litres again. So now we're rehydrating an hour before we re-enter with water and salt tablets.

Well, what's it like in space? I've been asked that maybe 200 times and I try to answer it each time. It's fun, when you get over all the other stuff you have to deal with; it's kind of neat to be able to fly around. Here I am wearing a T-shirt that I had prepared before the flight, pictures of my family on the back of it.

One of the most wonderful things you can do from space is look at the planet earth. I had a wonderful time, when I had a few minutes, looking at our golden planet. It was so beautiful. The light angle changed every time I looked at it, making the atmosphere different colours. Some days it was golden, some days it was a turquoise blue, it was always changing. I can only tell you that we cannot attach the same quality of depth and luxury of colour on this film, as you can see with the human eye in space.

I have met some people in my life, such as the Queen and Prince Charles, people that I've read about, and then when you meet them, it's a new dimension, a new emotion, and you remember that the rest of your life. It's like that when you look at the world. You wish everybody could see this beautiful planet.

You will feel much more protective of the civilization and how much we mean to each other and how much we need to take care of each other.

We flew over Canada of course and this is one of the first areas I saw of Canada. There was blue ice off the coast, this is Labrador. There were other areas too covered by ice and this is how you'd see it in space flight as we travelled from west to east. This is James Bay and, down from the top to the right, is the Moose River in Moosonee and further over the Albany River. When we take all these pictures, the people on the ground make us look good. We had over 3,000 frames from our flight of which 2,700 were taken of the earth. So when we came back we had to have some really smart people figure out where we were. We knew what we were looking at from space because we had a computer telling us where we were, but when we come back, that's a different story.

When we came home, we all hoped that we have another golden opportunity to fly again. It's fun doing the scientific work up there, compared to the scientific work down here, and to be able to look beyond our own planet.

Here I am, full of great pride, with a maple leaf on my shoulder and a maple leaf in my heart. One of my favorite cartoons was a cartoon of the shuttle going over Canada and the commander is saying: "for Pete's sake Roberta close the window." And here's this arm outside waving a Canadian flag.

If there are some questions, I'd be delighted to try and answer them.

The appreciation of the meeting was expressed by Robert L. Brooks, President, The Empire Club of Canada.

September 25, 1992

A joint meeting of
The Empire Club of Canada
and The Canadian Club of
Toronto

Karl Otto Pohl

Former President, Deutsche Bundesbank; Director, The Horsham Corporation

EUROPE AND THE FUTURE

Chairman: **Robert L. Brooks**
President, The Empire Club of Canada

Introduction

Surely no one forgets the day the Berlin Wall fell. It was a remarkable and exhilarating event. But, as we now know, when the limelight dimmed and the world turned its attention elsewhere, the real work of German reunification was only just beginning.

Machiavelli wrote:

> *There is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success than to take the lead in the introduction of a new order of things.*

Putting a country back together after 45 years qualifies, I think, as leading in the introduction of a new order. The job of uniting East and West has proved a more daunting task than I think anyone imagined. Reunification is more than just a renovation—taking a wall down here, putting up a building there. Reunification has meant the melding of two separate economic and social worlds, not quite the proverbial oil and water, but close. And, of course, the effects have been felt all over the world, but especially in both Eastern and Western Europe as others have had to cope with the new order.

Today, ladies and gentlemen, I have the honour of introducing to you a man who was not only a witness to the unification in Germany, but who took a hand in its fashioning. After early stints as a sports reporter and then economic journalist, Mr. Karl Otto Pohl began a distinguished career in the service of his government. As President of its central bank, the Deutsche Bundesbank, and as Chairman of the Central Bank Council from 1980 to 1991, his commitment to the control of inflationary pressures was incomparable. He epitomized the strong central bank hand on the monetary tiller as other governmental policies lurched uncertainly onwards. Imagine, if you will, our own John Crow on steroids.

Moreover, I'm sure you are all aware that Mr. Pohl's alma mater has gained a certain notoriety. The "fed watching" of the early 80s has been replaced by "buba watching" currently. But all things change and, while some think the Bundesbank finally blinked a couple of weeks ago in the face of massive strains in the European monetary system, maybe we can look forward to a slightly less austere central bank here too.

During his time with the Bundesbank, Mr. Pohl was also the German Governor of the IMF and a board member of the bank for international settlements. In May of this year, he became a director on the board of the Horsham Corporation.

Given recent events in Europe, we can certainly agree that Mr. Pohl's presence here today is more than fortuitous. Please join me in welcoming Mr. Karl Otto Pohl.

Karl Otto Pohl

Thank you Mr. Chairman, ladies and gentlemen. It's a pleasure for me to be in Toronto and to have the privilege to address two distinguished clubs. But I have to say that whenever I come to Toronto, there's a crisis.

Last time I was here, 10 years ago, I attended the IMF meeting in 1982 and that was the beginning of the debt crisis, very scary, and we spent many hours trying to keep things under control.

This time I was very anxious that today could have been a very critical and dangerous day for you because of the events in the exchange markets. Fortunately and surprisingly I think, the exchange markets are very calm today. I cross my fingers and, if we are lucky, maybe the crisis is over and the markets will go back to normal next week.

But I think it's fair to say I followed them more from some distance because I spent the week in Washington at the IMF meeting and of course, I had no inside information. I only read the newspapers and the television and got some reports from my secretary in Germany. But if I read correctly, I think the European Monetary System, the main pillar, I would say, of the European Community, was very close to a collapse. I found a piece in *The Wall Street Journal* the other day by the famous Nobel Prize winner, columnist Milton Friedman. He's already 80 years old but still pretty bright. He wrote an article, it's a long article and I only want to read two sentences from the conclusion. "How many more fiascoes will it take," he wrote, "before responsible people are finally convinced that a system of pegged exchange rates is not a satisfactory financial arrangement for a group of large countries with independent political systems and independent national policies."

So that sounds nice in a country like Canada with a floating exchange rate. And a floating decoupling of the European currencies from the D. Mark would have been the obvious alternative to the European Monetary System which is a system of fixed exchange rates. I don't think it would be a desirable alternative. We had that in the 70s and the situation in Europe is, I think, quite different from the world economic monetary system, if you want to call it a system. It is a system of floating and it has worked since the collapse of the Bretton Wood system in '73 quite well, in my view.

We have survived with that system at least a number of crises, in 1974 the oil crisis, the second oil crisis, the debt crisis and what have you. So because the system was quite flexible it has also helped us to survive, so to speak, the attitude of benign neglect which is a very common and traditional attitude in the United States.

But this attitude of benign neglect, both by the American central bank and the German central bank, has met with a situation never faced before. European interest rates, let's say German interest rates, are about 600 basis points higher than

American interest rates. And the consequences of course—pressure on the U.S. currency, the depreciation of the U.S. currency and the upward pressure on the D. Mark—contribute to the turmoil we have seen in Europe.

On this international level, and I think I'm an advocate for flexibility, I don't think floating rates would be a desirable system for Europe because the European economies have reached an enormous degree of integration.

For instance 70 per cent of German foreign trade is with European countries. A system of floating exchange rates, as we have seen in the 70s, could lead to a kind of vicious circle of inflation, more inflation, more depreciation, more inflation and more depreciation.

One has to think about that and remember the experience of the 70s. Britain was forced to leave the exchange rate mechanism of the European Monetary System. But it would be an illusion, I think, to assume that that would leave a lot of room for manoeuvre in terms of lowering interest rates and stimulating the domestic economy because that will immediately lead to further pressure on the exchange rate which, by definition, is a cause for more inflation.

So the room for manoeuvre is rather limited or, in other words, we are all in one boat in Europe, as far as the monetary system is concerned. And the European Monetary System is certainly an arrangement which has helped us to achieve the headway and the integration of our economies which we have enjoyed over the last 12 years or so.

In my view, we have a strong interest in Europe in keeping this system intact, and it is still intact. Britain joined the EMS only a few years ago and has now left again. But before Britain joined, it was the same group of countries, more or less, with the exception of Italy, which is also out for some time.

So the EMS is still intact and I think we have good reason to fight as the Bundesbank and Banque de France did during this week, to keep it that way. This European Monetary

System has worked more and more as a kind of a quasi-monetary union, but of course without the common central bank.

The monetary policy of that system was mainly determined by the Bundesbank, guardian of the strongest policy in that system and the main reserve currency. It's fair to say, I think, that the role of the D. Mark as the anchor of the system, the standard for the stability of the system, was very beneficial and has led for the last number of years to a reduction of inflation in Europe, to more and more convergence of economic fundamentals.

There was a broad consensus, and it seems to emerge more and more amongst European governments, that monetary policy has to aim for price stability. One fruit of this policy was lower inflation and, as a consequence, a narrowing of interest rates. Today, France has a lower inflation than Germany. I have hope this consensus still exists, but recent developments have made that a little questionable. Members of the system are complaining about the dominance of the D. Mark and the high interest rates which are the result of the Bundesbank policy.

When you take into account that unemployment in France, in Italy, in Britain, and other European countries is growing, I think it's very understandable that these countries want lower interest rates in Germany. But the German central bank is in a dilemma. They are determined, and obliged by law, to pursue a policy which maintains price stability.

We know from experience the policy of the central bank has to be supported in other areas, by fiscal policy in particular, and wage policy. And in that respect the other partners of the process have not been very supportive.

Actually wage-rate increases in Germany and West Germany have exceeded gains in productivity over the last two years, and Germany, which has always had a rather conservative and prudent fiscal policy, is now a country with a very huge deficit as a consequence of German unification.

The Bundesbank is still determined to maintain price stability but that policy has led to extremely high interest rates and the risk of a slow-down in economic activity and perhaps, a recession not only in Germany, but also Europe.

One has to be fair. The process of German unification, at the beginning, was very beneficial for all partners in Europe. That is sometimes not always acknowledged and recognized.

Because of the demand which was the economic consequence of the very generous conversion of East Marks into D. Marks and the introduction of the D. Mark plus enormous transfer payments to the former GDR, the economic effect was like a Keynsian-type fiscal expenditure. And you can see it in our import figures; the German trade figures in 1990 and 1991 deteriorated dramatically. It's still a surplus but we need a huge surplus to compensate for the deficit in services and all the other things.

So our playing partners, particularly in Europe, have benefited enormously. I think without this demand push, Europe would have slipped into a recession like the United States, Canada and other industrialized countries. But that is now more or less over because we have reached a new level and there is no additional demand being generated. The only thing left are the high interest rates.

So in my view there is a real risk of recessionary tendencies in Germany as we have seen in other countries. That is one risk. The other risk is, of course, that the monetary system is coming under constraints.

The logical answer to the dominance of the Bundesbank and the dominance of the D. Mark would be, of course, the one that was assumed in the Mastricht Treaty—to establish a European Central Bank and a European currency. In other words, to transfer the decision-making power for the monetary policy from the national level to a supra-national level. And that is the heart and the essence of the Mastricht Treaty.

Surprisingly governments are ready to sign the treaty but citizens in many of these countries are not. I don't want to make any forecast about the future of the Mastricht Treaty, but I think it's almost certain that the process of European integration is going to continue. Because what we are talking about is long-term change and institutional arrangements within the framework of the European Community.

The collapse of communism has also opened Eastern Europe for the integration.

So maybe the whole Mastricht effort is coming to a standstill for the time being. That has a good side; we could stand to reconsider and to re-discuss the whole issue of the future of Europe. I was always of the opinion that Europe could not be limited to the EC or the European Community, but that we should take into account the recent revolutionary changes in the East.

The centre of Europe has moved already more to the east, to the north. Berlin is now the capital of Germany. And it is kind of symbolic that the capital of Germany has been moved, or is in the process of moving, from tiny little Bonne to Berlin. I think that move has symbolic and substantial relevance.

Germany, of course, has to play a crucial role in this process. It is, whether one likes it or not, the power house of Europe. It is not only the biggest country in terms of population, but even more so in terms of economic strength. For the future of Europe it is of utmost importance that Germany gets its house in order.

Ladies and gentlemen, I could entertain you another one or two hours on the very very tricky problems of German unification.

The transfer payments have been widely underestimated. At the beginning there were enormous transfer payments from West to East. There was about 180 billion D. Marks last year, which is five per cent of the GDP of West Germany and almost two-thirds of the national income in East Germany.

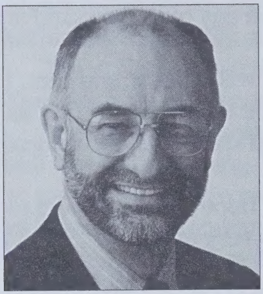
The development in East Germany is not as exciting as people thought it would be. On the contrary, it is very sluggish; it's a very depressed area and it will remain so for some time.

It is a historic task to clean up all the terrible mess which was left from the previous system over there. It will take a long time. It will take much longer than any of us expected at the beginning.

But I'm pretty sure that finally we will make it and that, I think, is not only of great importance for Germany but, as well, for the future of Europe which, in spite of all the critical events, has a bright future.

So that is at least what I hope and I hope I'm not too old to see that during my lifetime. Thank you very much.

The appreciation of the meeting was expressed by Isabel Bassett, President, The Canadian Club of Toronto.



September 30, 1992

Sir Graham Day

Chairman, Cadbury Schweppes PLC

SOME GLOBAL MANAGEMENT INFLUENCES, TRENDS AND OBSERVATIONS

Chairman: **Robert L. Brooks**
President, The Empire Club of Canada

Introduction

As one of the world's largest confectionery and soft drink companies, Cadbury Schweppes is virtually a household name in Canada. But it would probably surprise many of us to learn that its chairman, Sir Graham Day, is a Canadian.

Sir Graham was born in Halifax. He received his law degree from Dalhousie University, and later taught at the business school there. In fact, I understand he plans to return to Nova Scotia within the next couple of years and to make it his home once again.

But Sir Graham really made his reputation in the U.K. In 1971, the British Government invited him to become chief executive of Cammell Laird, a struggling shipbuilder on the verge of insolvency. He took the situation firmly in hand, and when the union protested the inevitable layoffs, he responded by saying simply: "I never lie, and I never bluff." And with that, he made Cammell profitable.

An expert strategist, he is well known for taking on troubled companies and turning them around. When he returned to Britain in 1983, after two years with Dome Petroleum, he successfully returned what was left of British Shipbuilders to the private sector, cutting the workforce to one-tenth of its former size.

Then, in 1986, Margaret Thatcher appointed him Chairman and CEO of British Leyland Group. After a decade of losses, he made it profitable in just one year. He renamed it the Rover Group, privatized it, and engineered its sale to British Aerospace.

Mrs. Thatcher was apparently so proud of his accomplishments she "liked to display him like a trophy," in the words of one senior British executive.

Sir Graham temporarily took over the chairmanship at British Aerospace in September, 1991, where his strategy was to refocus the company towards its core businesses and to shed or joint venture the rest.

Meanwhile, Sir Graham has contributed a great deal to the positive reception of Canadian business people and professionals worldwide and continues to do so in his capacity as chairman or director of several international companies. The only thing that worries me in all this is that he's on the board of the Bank of Nova Scotia. Sir Graham, given your history of rationalizing business, does this mean I should be looking for a job?

It has been said that "for every problem, there is a solution which is simple, neat, and wrong" (H. L. Mencken). The need for sound strategic management cannot be overemphasized in facing the complex problems of competition in today's global market place.

As a man of decisive leadership, Sir Graham has offered his expertise to a wide range of corporate, community and academic bodies. Today, he is here to offer us his insights. If we're lucky, he may even divulge the secret to one of our greatest corporate mysteries: how do they get the caramel into the Caramilk bar?

Please join me in welcoming our distinguished guest.

Sir Graham Day

When I spoke to The Empire Club a few years back, I reviewed aspects of the role of the British Government in commerce and industry, particularly privatization. In Britain the Bell Curve of privatization activity is now apparent, as but a few state enterprises remain to be sold, albeit some of the more difficult ones. However, I will not use today as the occasion for an update.

Instead, in our increasingly global business world, I hope it may be interesting for you if I consider a few of the management influences and trends which I perceive currently, and then leave with you some related observations.

The interest for me, and I hope for you, is that these management trends are apparent around the world. The Elizabethan cleric and mystical poet, John Donne, wrote that "No man is an island." Indeed, it may be said truthfully today that no business is an island—locally, nationally, regionally or internationally. How well we manage may differentiate us individually or corporately, but the techniques we and our international competitors use will be broadly similar. No nation, company or manager possesses a unique managerial advantage.

Before identifying and talking about some global management trends, I want to outline some of the influences which affect developments in management.

There is the "international" dimension. This includes world trade structural considerations, such as the General Agreement on Tariffs and Trade (GATT). As you well know, the current Uruguay Round continues interminably with, variously, the United States, the European Community and the Cairns Group each accusing the other of intransigence and protectionism. There is the reality of bilateral trade agreements, either subordinate to GATT or apart from it.

Now, importantly, there is the emergence of trading blocs. First, in modern times, is the European Community, 12 nations comprising approximately one-quarter of world trade and, if some member states have their way, set to expand as we approach the 21st Century. Most recently there is NAFTA, the North American Free Trade Association, growing out of the earlier Canada-U.S. agreement, in population and trade terms set fair to be the major world trading power.

On a much smaller scale is the Trans-Tasman Association between Australia and New Zealand. I may be stating the obvious, but I expect the emergence of trading blocs is likely to replace the GATT system as the major factor in world trade relationships.

Three other international aspects which influence management trends are self-descriptive. Currency relationships, finance mobility and political stability.

A second set of influencing factors I would describe as "corporate." These include increasing globalization, investor pressures, the environment and business ethics.

Markets throughout the world are developing, to various degrees, some similar characteristics. In these markets, product and service standards progressively are levelling up. As companies increasingly view markets on a multinational basis, rather than nationally, restructuring and investment reallocation decisions follow. For example, factories may gravitate to adjacent areas to secure greater labour stability, higher productivity and lower costs.

With the increasing globalization of markets, customer relationships take on a different perspective. If, for example, a purchaser-supplier relationship exists in one part of the world and the purchaser establishes an operation in another, there is a tendency to continue the relationship with a satisfactory supplier, who may migrate also. This aspect increases competition, but also frequently contributes to the levelling up of product and service standards.

Investors are becoming more explicit about their interests. These interests include company earnings and dividend payouts, management pay and performance, corporate strategy and the presence and effectiveness of "outside" board members.

Obviously, institutions invest, as do you and I, in order to secure a return. The pressure for adequate corporate earnings and progressive dividends is clear. Sadly, not always related to company performance, is management pay. Thus, more frequently, and quite properly, investors are requiring in the shareholders' interests, that top managers' pay be related clearly to company performance.

In this time of recession, we are seeing that some companies who performed apparently well in more buoyant economic times, in fact were operating tactically. For such companies the absence of clear corporate strategies has become apparent.

Part of the mechanism which should address these concerns is the presence on the board of directors of “outside” or “non-executive” members, that is directors who are not part of the management. It is a whole other debate, but for these outside directors to be effective they not only must have basic corporate competence, but the system of their appointment, re-appointment and retirement should be such as will encourage independence.

The environment now ranks quite high on most corporate agendas. In too many instances there are what I describe as “past sins.” These are actions taken by predecessor managers and sometimes extend back decades. Now, cleanups must take place and the financial consequences of these previous acts must be met.

We live, too, in a world of possible double standards. Wherever our corporate homes may be, generally we are compliant, not only with national law and regulation, but also with generally accepted standards of behaviour. The question arises whether, if the business is international, we adopt different standards in different places, particularly where law and regulation may be less demanding or even absent?

While environmental issues, relatively, are new, economics, like the poor, are with us always. For example, recycling generally has been deemed to be “good.” Now, however, that generality and the lack of focus are being called into question. At last the questions of real economic and environmental benefits are being asked, and answered, on an individual product or container basis.

Business ethics, like the environment, is now an element in the management of the “politically correct” business. That is not to disparage the very real ethical issues we face in day-to-day business management.

As corporate pay is being called into question, similarly is corporate lifestyle. Does the manager properly distinguish the company's money from his or her own? There is the time-honoured question of bribery.

We may not bribe our customer in the same city or country, but what about "over there"? We may argue that in Rome we should do as the Romans do. Theft and fraud are not new. What appears to be new is the monetary size and geographical spread of a number of thefts and frauds, notably the BICC affair and the activities of the late Robert Maxwell.

In Cicero's oration against Cataline he spoke of the "Age and the Customs." These considerations continue to impact on the way in which we conduct our businesses. Frequently, compliance with perceived social mores may be more important to us than regulation.

Another of my influencing factors is competitiveness. Here we have the obvious matters of costs and the need to retain customers plus the accepted, modern requirement for information and, less obviously, learning speed.

There is little I would wish to elaborate here other than to remind you that customer retention is always cheaper than finding new customers and also to say to you that "fast learning" may be a company's only competitive advantage. If your business, as a matter of strategy, has determined to be a "fast follower" rather than a leader, then learning speed is essential to the delivery of the strategic thrust.

A basic influencing factor is economics; the generation of cash, (and I would remind you that cash is the only four letter word which will forgive all business sins if you have enough of it), profitability, growth rate and the returns earned on assets and equity. These realities are familiar to you and require no further comment from me.

Finally, there is the critical influencing factor, the marketplace.

Here I perceive increasing segmentation, rising standards of service and quality, the continual battle for market share and the somewhat newer confrontation of brands versus generics and pseudo-branded products.

Grandly, I might say to you that in market-share terms, begging the size of your particular market, ideally you should be No. 1 or No. 2. You might survive as No. 3. If you are in an inferior market share position I would hope that you are a "niche" player.

Brands have real value, except, perhaps, to accounting standards committees. But brands battle for consumer expenditure with generic products and pseudo or house brands which are created by retailers in their own quite proper interests.

What, then, are some management trends I perceive in the environment which I have described to you?

The first of four management techniques is Pancaking. Pancaking is the buzz-word for de-layering, that is the progressive elimination of intermediate layers of management.

Pancaking, obviously, reduces cost. It increases effectiveness in as much as non-contributory filters are removed and individual responsibilities are clarified. Pancaking enforces delegation, because as the layers are compressed the span of management necessitates increasing reliance on subordinates.

Subordinates, including to the lowest level, are thus empowered, again a buzz-word. Simply expressed, empowering means that employees at all levels are given much greater authority and responsibility for their own performances.

It follows naturally that pancaking increases transparency within an organization. There are very many fewer places to hide.

Particularly during the current recession, the attractions of "shrink to produce more" are very seductive. The proposition can be simply stated. Retain one-half of the people, pay them twice as much, and endeavour to secure three times the output. Obviously, there is no particular magic in these specific ratios. The magic, if magic there is, lies in the concept. I'm satisfied, directionally, that it is workable in all businesses, and for some it is essential to survival.

I always advocate competitor analysis. The primary focus of any business has to be the customer. Closely aligned to that focus, naturally, is the competition. Benchmarking is the label for the technique which transforms mere observation into a competitive tool. In essence, you analyze the competition and compare it to your own operations. On the 80-20 principle, one should focus sequentially on the most important inputs and outputs. In most cases 20 per cent of these account for 80 per cent of the benefits to be gained. It is important to recognize that benchmarking is not a project, it is an ongoing activity.

The JIT, or just-in-time inventory control method, is the subject of too many superficial business magazine articles. JIT, together with Total Quality Management has helped to comprise a growth industry for consultants. Labelling aside, I am speaking about nothing more than inventory minimization. For such an obvious moneysaver, I continue to be surprised how few companies have really gripped their inventories.

To do so, the volumes involved and the timings of utilization must be related. You have to involve all of your employees and you have to ensure that your physical goods channels and receipt processes mesh with your required volumes and the rates and timings of usage. I believe the easiest money which any business having an inventory can save lies with the minimization of that inventory.

I have said that all of one's employees have to be involved, and this is true. Also, it is obvious that inventory minimization cannot be achieved on an ongoing basis without the close involvement of suppliers. I have advanced JIT or inventory minimization as a global management trend, and it is. The sadness is that so basic and so fundamental a tool should always have been at the top of our lists.

Now I should like to comment on some observations which I perceive as linked to, or flowing from, the management trends and the factors which influence those trends to which I have referred.

My view is that there is a return to the Generalist Manager. That is in no way to decry specific skills but, rather, to note that now the demand for management breadth is reoccurring. Quantitative skills remain essential, but only as a prerequisite. Important are good interpersonal and communication skills, as are good qualitative analysis skills. Ultimately it comes down to whether, particularly at or near the apex of the corporate pyramid, there are managers who possess excellent judgment and decision-taking attributes.

I said earlier that "fast learning" may be a company's only competitive advantage. I believe this to be true. But learning is a continuing process, both on an individual and on a corporate basis. Corporately it is both a key to survival and to growth. Importantly, it is not an option. Individual learning, in the corporate world, must now be, and be seen to be, life-long.

Life-long learning must permeate all levels of the corporate organization and, to the extent necessary, should be backed with corporate money. We are all familiar and comfortable with cases for investment in hard assets. We must now become familiar with evaluating investment in people. For the most part, this activity requires external professional support.

In referring to inventory minimization, I mentioned Total Quality Management. Most of you will have read, been lectured to or, hopefully, practise TQM. Let me only say here that the process must involve all employees and must become corporate-culture based. That is, beyond the techniques are the hearts and minds of employees. If these fail to be captured, then Total Quality Management initiatives will fail.

Again, like inventory minimization, Total Quality Management may be introduced on a project basis, but in order to be effective, must become embedded in the way in which a company does all its business, internally and externally.

Leadership is something, historically, that we were content to ascribe to the military and, occasionally, politicians. Now, however, it has become acceptable to recognize that leadership attributes in management are essential to corporate success. Carl Jung, the psychologist-philosopher, said that some are "predisposed to be more effective." For those of us who may not be so predisposed, I suggest that we possess potential to adjust our behaviour so as to enhance our leadership attributes. In brief, the objective of leadership is to change compelled performers into contributing participants. In other words, the idea is to lever human strengths in order to create a corporate climate for overall achievement.

Two of the more interesting aspects which I observe are the increasing presence of women in management and the changes in youth attitudes.

Women comprise something more than one-half the population. Their academic records tend to demonstrate that overall they perform better than men and my own experience is that they perform very well as managers. Very importantly, women are different, and that difference and the perspectives it brings make them desirable managers within any organization.

At last women are finding their way into the nooks and crannies of business life, not so much on the basis of equal opportunity initiatives, but on the basis of corporate need and a realization of what women can contribute.

Perhaps it is my age, but today I am infinitely more satisfied with the young we recruit than I was some 10 or 20 years ago. I have compared my subjective conclusions with those of colleagues in a number of companies and geographical locations. Educational standards aside, they agree that youth attitudes are more acceptable. There is a greater willingness to accept responsibility. Young managers are steadier and the likelihood is that many of them may jump a managerial generation, thereby displacing some of those who are their organizational superiors today.

Accounting standards, seemingly, are beloved in the Anglo-Saxon world. Now I perceive the emergence of a long-sought, not always articulated, objective: namely, the progressive acceptance of such accounting standards on an international basis. The reasons are simple—in our global markets these accounting standards facilitate international business. The standards assist response to investor interests and, most critically, they facilitate finance.

As national business has become international and international business has become global, the emergence of multinational management is one of the results. Naturally, this reflects the geographic scope of the global corporate undertaking. Multinational management is appropriately more culture sensitive to the range of markets within which the employing corporation does business and, essentially, secures languages capability. Albeit belatedly, there is a growing appreciation that managerial excellence transcends race, religion, colour and creed.

I can't conclude without saying a few words concerning graduate business schools. Too many senior managers say to me that business schools are not meeting corporate management requirements. By this I infer that the graduates of business schools are proving to be less satisfactory management employees than many employers anticipated. Obviously, I am sensitive to a charge of generalization. Nevertheless, it is perhaps necessary for business schools to be put into an appropriate perspective.

That perspective might include a recognition that, primarily, these schools simply provide basic business management tools.

My view is that for the most part, they do not inculcate values, nor do they successfully develop judgment. It has been suggested to me that too many schools are engaged in the production of "technicians." In short, there is much employer disenchantment with business schools and their products.

More encouragingly, some business schools are now re-thinking what they should be doing, how they should be doing it and what requirements, including work experience, should be mandatory before a student is admitted to a graduate business program.

If I were to draw any conclusions it would be these four.

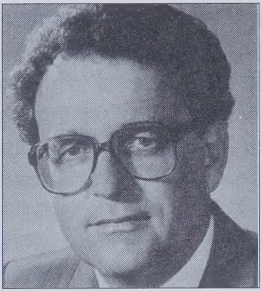
Firstly, that in business today there is no place to hide; no place to hide from one's customers, one's employees, one's investors or, indeed, one's bankers. Increasing transparency is required both by operational efficiency demands, through growing sophistication and, ultimately, by legislation and regulation.

Secondly, I hope and believe that ethical values and business fundamentals now are being rediscovered. I have spoken about various techniques, but I have also suggested to you that these, for the most part, are basic and things which we should have been doing anyway.

Thirdly, managers, particularly senior managers, now require a breadth which I perceive as being a significant corporate re-think. The managers of tomorrow must be more holistic.

Finally, four, people have always been important and most corporate leaders render lip service to this reality. Now, as we change our structures, as we rely increasingly on others to contribute, we must recognize that "employee power" may be the most important new corporate reality.

The appreciation of the meeting was expressed by Catherine R. Charlton, President, The Charlton Group and a Past President, The Empire Club of Canada.



October 8, 1992

John Crispo

Professor of Political Economy,
Faculty of Management, The University of Toronto

MAKING CANADA WORK

Chairman: **Robert L. Brooks**
President, The Empire Club of Canada

Introduction

I must confess I was rather surprised when I learned that our speaker this afternoon had agreed to join us. After all, it's not often that a man as soft-spoken and retiring as John Crispo can be persuaded to air his views in public. One might even say the extent of his aversion to the spotlight is a matter of public record.

But far be it from me to describe a man who speaks so eloquently on his own behalf. As Dr. Crispo said in Mel Hurtig's recent anthology entitled *If I were Prime Minister*:

"It is difficult for me to imagine assuming any elective office, let alone that of the prime ministership, because of my propensity to offend just about everyone on everything...."

In fairness to our guest, though, I must say it is rare to encounter anyone who can move with such facility among the worlds of business, academia and government. Yet that is precisely what Dr. Crispo has done during a career which spans 30 years, three countries, five universities, nine books and dozens of major papers and op-ed articles. You may recognize such titles as *Can Canada Compete?* and *Free Trade: The Real Story* as two of his more recent musings. He is a member of the C. D. Howe Institute and, more controversially, has recently joined the board of directors of the CBC—talk about putting the cat among the pigeons! In fact, if you haven't heard of Dr. Crispo by now, you've probably been out of the country for quite some time.

Those of us who are aware of our guest's intense political views will, I am sure, be startled to discover that he describes himself as "an old fashioned Swedish social democrat." It was only when I read his definition of the term as someone who regards free enterprise as the world's most powerful engine of social and economic progress that I was able to climb back into my seat. He goes on to say, however, that free enterprise is far from perfect, and that it must be balanced by a safety net of social programs if society is to remain humane.

Dr. Crispo makes his professional home at the University of Toronto's Faculty of Management, where he is Professor of Political Economy. As I am sure you know, his tireless advocacy of free enterprise and competitiveness is matched only by his vitriolic criticism of our political leadership. His most recent book, *Making Canada Work: Competing in the Global Economy*, was launched just this week. We are truly lucky to have him here this afternoon to give us a preview of his latest thinking.

Please join me in welcoming our distinguished guest.

John Crispo

I thought I'd like to begin today on a somewhat controversial and provocative note rather than my usual bland, diplomatic, tactful, under-stated self.

I stand before you a frightened and frustrated man. I'm frightened for two reasons. I'm frightened at the prospects that the greatest country the world has ever known may be on the verge of its own self destruction.

And I'm not just talking about the Constitution. I'm actually frightened by the anger and the hatred that I'm experiencing doing open-line shows all over this country. It's ugly out there. The negativism is really, to use a word I've already used, frightening.

At the same time I'm frustrated because I'm not able to do very much to help my country at this stage. I am arrogant and egotistical enough to be confident I know what you need to do, but I don't know how to get my message across.

I suppose writing a book is one way of doing it. But books aren't where the action is. That's the reason I'm here today. I really am grateful for this opportunity to speak to you at this troubled time in our country and I want to thank you for having me.

I'm especially thankful because this is being televised on Rogers Cable TV, so I am reaching a lot of people I otherwise wouldn't reach. I need such outlets if I am to make the contribution I believe I am capable of making.

I really don't have any national outlets, not in terms of the national electronics media. To be fair, I'm not just talking about the CBC, I'm talking about CTV also. The vast majority of producers and on-air people in both those organizations hold me in contempt and want nothing to do with me. That isn't going to change and I'll tell you why.

They can't take my criticism; they criticize and condemn every one and every thing and they can't take the heat when somebody throws it back at them. And I throw it back. I'm also politically incorrect on a large number of issues. And finally, of course, I am quite articulate and able to put forward my points of view effectively. And since they dislike my points of view, they're not going to give me any airtime.

So I'm in trouble.

Now having said that, I want to add that I am convinced that the CBC is moving in the right direction in a number of areas. People are going to think I've been bought but I think the CBC could become a role model for accountability. We have the most comprehensive statement in the world on media accountability. I don't agree with every word in it, but you can't find any better statement in the world.

If you knew about our guidelines in covering the current constitutional debate you'd be very proud of the effort we're making to ensure the debate is balanced and fair, at least on the CBC.

I think the CBC is moving in the right direction. I also have to say that none of this is going to help me, but you shouldn't be on the CBC Board just to boost yourself. I'm there to try to make the CBC the world model I think it can become and I see real hope that we're going to do that.

Anyway I should get down to what I want to talk about. I want to begin by stressing what I alluded to at the beginning: We don't have just one crisis in this country.

We obviously have a constitutional crisis. But we also have a political crisis and an economic crisis and if we don't deal with all of these pretty soon, we're going to have a very serious social crisis.

Let me touch on each of them as briefly as I can. We blew it over Meech Lake—English Canada rejected it and French Canada reacted to that rejection. Now we can blow it again over the Charlottetown Accord. I truly hope this isn't going to happen; I am very much for the Accord despite major misgivings. The fact we didn't get an economic agreement, that we're going to have freer trade between ourselves and the United States and Mexico than we have between our provinces, is a tragedy. But I'm not going to hold my nose and I'm not going to swallow hard when I vote because, I'll tell you, if you really think we're going to get anything better from the types of people that we elect, you're smoking something. It isn't perfect, it never will be.

I feel very strongly about the Accord. If you say that, if we don't vote yes, we're going to have a lot of political confusion if not worse, and a lot of economic difficulties because of the ensuing instability and uncertainty, you are told you are spreading fear. But what if you really believe as I do, do you not have an obligation to state that to the Canadian people?

I think it's talking reality. And I'm not going to stop warning the Canadian people that they're taking severe risks for this country if they toss this agreement out. There isn't any other agreement around the corner.

And, in the process, if we discredit the one federalist in Quebec, the Premier of Quebec, who is going to speak for Canada in Quebec?

People said he wasn't a federalist. Look at the fight in that province and tell me he isn't a federalist. If he goes down to defeat on this issue, I don't know how we'll recover from it.

We also have a political crisis and I know The Empire Club doesn't like people to be too political, which will require a little effort on my part. I got in enough trouble at the Tory convention two summers ago; I'm no longer accepted anywhere in that party and no matter where I go, I offend.

The truth hurts. But what we lack in this country is a national leader who commands anything like majority support. Now I'm going to add to that. I actually feel sorry for our Prime Minister, because I think he's tried to provide leadership.

He's failed miserably on the deficit and the debt and I'll never forgive him for that. But he gave us leadership on the Free Trade Agreement, on the GST, on Meech Lake and the Charlottetown Accord. What does he get?

He's gets a bitter old man, a former prime minister who can't stand the fact that Mulroney got a deal, and therefore wants it torn up and, with it, the country.

Trudeau couldn't care less. I can't believe that man and I can't believe the fact that he's sounding so anti-Quebec .

This country is sick. But there Mulroney sits at the bottom of the pole; and at the top of the pole, my old friend Jean Chretien who's figured out how to do well in Canada politically. Work every side of the street on every issue. On most issues, like the GST, his opinion depends on who he talks to.

Let me get to the economic crisis. If you're not turned off by now, now I'll really get you. This is the real fundamental challenge in the long run. How do we turn this country around economically? Well, unfortunately, you probably aren't going to be able to do the job you're capable of if you don't resolve the constitutional and political crises.

They are the cause of so much instability and uncertainty—the one thing capital cannot stand is instability and uncertainty. And what does this country radiate—instability and uncertainty.

The rest of the world doesn't believe we're going to do it to ourselves. After October 26, they're going to believe that we are prepared to potentially write off the most wonderful country this world will ever know. So that's a serious problem.

But let's assume we solve the Constitution problem; what we have to recognize when we get to the economic crisis is several things. First of all, we're not just in a recession, we're in a structural problem. Far more serious, far more fundamental.

And quite frankly, as I'll say again at the end, Canadians have no interest in becoming competitive. And the ultimate focus of my book is about making this country more competitive. It's an unbelievable challenge. But once I get to those challenges I have to point out a few things.

Competition today is as much between countries as it is between industry, firms and plants within countries. The winners are the countries providing the best public policy within which the private sector can plan with certainty and confidence.

And we're not providing that kind of framework. We have anything but that kind of framework. I'm very big on the private sector; I know society stands or falls economically, and socially, on private sector performance.

I don't spend much time on that in the book because I don't think anybody who's doing well in Canada today is an entrepreneur or manager. They face three or four levels of government trying to run them into the ground. With unbelievable tax levels, ridiculous regulations, it's as if governments are saying let's see what business we can kill today. It's depressing to behold.

And that's my focus in this book—"What do we have to do to change the climate, to change the framework?" Imagine if we unshackled Canadian enterprise, what they could do. And all we've done so far is a couple of things right. The rest we have to change.

The Free Trade Agreement—people are down on the Free Trade Agreement because the media are down on it. If you think the Americans blame Japan for everything that's wrong in their country, we blame the Free Trade Agreement for everything we're doing wrong in this country. We don't deal with the real issues. It really gets depressing.

But let me go down the list of things—I have a chapter on every one of these in the book. The deficit and debt, that's got to be first because the deficit and debt has been responsible for unduly high interest rates and an unduly high dollar in this country. It's low for the moment, but don't count on it, unless we totally collapse. If we don't get that deficit and that debt under control, it's going to bury us. And what we're doing to future generations is criminal. I also feel very strongly about privatization and deregulation, all the ways to make the private and public sector more efficient. Investment in R & D, industrialization, Medicare, education, equity: I don't know which one to talk about. I'll just pick Medicare.

People say I don't favor Medicare and that's something that really bugs me. Why do the Liberals and the lefties say that anybody on the right is against social security? I almost bankrupted Medicare in the last couple of years myself, with the help of my daughter and our little step-son that was born prematurely. Nobody appreciates Medicare like I do.

Lower pensions? I'm getting close to wanting mine.

But I know, unlike the Liberals and the lefties, that there will be no Medicare, there will be no social security, unless we become more competitive. If you need to rant and rave about the people who are dismantling these systems, why not deal with the real issues.

How do we make this country grow so that we can fund them and can continue to afford them? Well I deal with all of these things in my book and I know I get worked up, as I do when I'm talking. But I have to tell you, we're coming to the end and I've got a long conclusion.

I told you earlier: it's in there, it's in the book, there's an answer for everything. The only thing I can't come to grips with is Canadian attitudes and the Canadian mindset.

We're God's chosen people; we're entitled to a free lunch. We don't believe in free trade, but we sure believe in a free lunch. How do we come to grips with that? How do we come to grips with the fact that the rest of the world doesn't accept those assumptions?

And it really bothers me because I don't know how to change attitudes and I don't know how to change mindsets, particularly when I have no access to the national media.

This country has as much potential as it ever had. It is up to us to turn it around. But we're stuck with this attitude and this problem with mindset which I want to come back to in my conclusion; it's forcing me to come back to the Constitution and talk about what I'm talking about these days—Little Canadians.

I'm fed up with Little Canadians; they're all over the place. Little English Canadians; Little French Canadians; Little Native Canadians; Little New Canadians; Little White Canadians. Everywhere, all I run into is Little Canadians.

A Little Canadian doesn't see the forest for the trees. doesn't even see the trees, just a bush.

They're not thinking about the country. They're petty little people, Little Canadians, and I don't like it. If you all ask "What am I getting out of it?" I don't care who you are, you are not a Big Canadian. You're not my kind of Canadian.

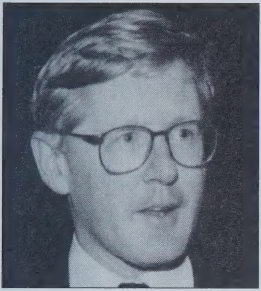
I don't care if you vote no—well I do—but if you vote no, vote no for the right reason. Read the document, study it and say this is not in Canada's best interest.

If people keep thinking the way they are, there is no Constitution imaginable that will ever be adopted by this country. I think we have an obligation to think much bigger than we have been. If we don't this country is going down the tubes.

I guess I'll conclude on this note. I have had a fantastic life. This country has been great to me. It owes me nothing; I owe it plenty. And really, if I didn't have two daughters and a stepson, I wouldn't care as much. But when you think of everything I've said today, including the upcoming referendum, think of your kids and your country when you vote, not yourself.

Through that we can make a difference and this country can make a turnaround that I know it's capable of. It is the finest, the greatest, the most wonderful country in the world and for us to be risking it is a crime. Vote, but think Big and carefully before you vote. Thank you.

The appreciation of the meeting was expressed by Alex Squires, Oil and Gas Consultant, Loewen Ondaatje McCutcheon and Company Limited; and a Director, The Empire Club of Canada.



October 13, 1992

A joint meeting of
The Empire Club of Canada
and The Canadian Club of
Toronto

The Hon. Bob Rae

Premier of Ontario

CANADA AND THE CONSTITUTION

Chairman: **Isabel Bassett**
President, The Canadian Club of Toronto

Introduction

Today, as you know, we are welcoming the Premier of Ontario, who is going to speak to us on Canada and the Constitution. The present constitutional crisis in Canada has wiped out political party lines so that representatives of the three major parties in Canada, both at the federal and provincial levels, are seeking every opportunity to speak across this nation to urge Canadians to vote Yes in the referendum on October 26th.

Premier Rae, who represents our great and beloved province of Ontario, took an active part and played a highly significant role in the political discussions which resulted ultimately in unanimous agreement among the federal government, all the provincial premiers and representatives of the Aboriginal peoples.

What took place at Charlottetown on August 28, 1992, is a remarkable achievement. We welcome Premier Rae here, not only as Premier of Ontario, but as a key player in the Charlottetown Accord. Ladies and gentlemen, please join me in welcoming Premier Bob Rae.

Bob Rae

Thank you very much Isabel. It's a great pleasure to be here this morning. Let me also say that I am somewhat nervous speaking in front of my mother who's here from Ottawa. It's not often that a 44-year-old Premier gets to be reprimanded or congratulated by his mother depending on the quality of his speech.

Let me also say, Isabel, that I am not just doing this because this is rebroadcast three times on cable television in Brampton. It is a particular honour and pleasure for me to be speaking in the presence of the former Premier of Ontario. I can't think of anyone who better represented the common sense of Ontarians during 14 exciting and turbulent years and represented the province in two rounds of constitutional negotiations at Victoria and in Ottawa.

One of the particular pleasures of being Premier is that those who've had the job know what a constant joy and delight it is; it involves no difficult decisions. Without giving anything away, I want to say to this former Premier that I have deeply appreciated his advice. I have not followed all of it, but with respect to the Constitution, I think it's fair to say I followed most of it. And I very much appreciate the support that he has given to me personally and to my family. I'm just very proud that he's on the platform today.

Let me make it clear that I'm not calling on him to return to public life; I will leave that to others.

My text today is a very simple one. The Rabbi Mymonides used to ask questions rather than give answers in an attempt to elicit wisdom. And he asked three famous questions which, it seems to me, will lead us to one conclusion with respect to the issue which is upon us.

The three questions: If I'm not for myself, then who is for me? But if I am only for myself, then what am I? And, if not now, when?

If I am not for myself then who is for me? One of the difficult things that a Premier has to do in these discussions is to recognize that if you don't speak up for your own area or your own people or your own region, no one else will.

And so one of the tasks that I took into these discussions, as Premier Davis took into earlier ones, and Premier Peterson did into the Meech Lake Round, is to try to represent the province in a balanced sensible way, recognizing that we are 10 million people, an economy that drives over 40 per cent of the GNP of Canada, and that we are seen by all the other provinces, as having a lot of power and, therefore, a lot of responsibility.

Sometimes people say to me: Premier how could you have accepted an equal Senate? And my answer is we accepted it on terms and in ways that I believe adequately protect the critical interests of this province. I did so, I can tell you, after much soul searching and much discussion. I realized that it would be seen as an act of enormous goodwill by those provinces who have seen the benefits of such a Senate.

But I also have to recognize that there was no point in doing that if I did so at the expense of the support and understanding of the people of this province for such a major concession.

The balance that we struck was to establish a link between an increased representation in the House of Commons and a mechanism by which we resolve the disputes that take place between the Senate and the House of Commons. We did not add to the number of politicians in Ottawa. We did not increase the level of bureaucracy or duplication. We have, however, struck a balance.

It is this element of striking a balance and hearing who it is that's speaking on the other side as well, that apart from all the technicalities always has to drive a discussion about federalism in Canada. We're a federal country; we're not a unitary state.

We couldn't survive if we were a unitary state. We could only survive by being a federation in which we recognize the needs, the aspirations, the differences, and also recognize what pulls us together. Every one going into these discussions has always brought a concern about whether it will sell, whether it represents a balance. On an open-line radio show the other day, a woman said: "Mr. Rae I thought you believed in the banning of the Senate."

And I said I hold no particular candle or brief for the current Senate. I have no aspirations to belong to it. I don't think it's a very effective body in the modern federal state.

She said: "But you said you were going to abolish it and now you come back and you've got a Senate which is equal, which is elected and which is as effective as the people we elect to it. Aren't you just nothing but another old fashioned hypocritical politician because you've gone along with this?"

And my answer is, as long as the principles which take all of us into these discussions remain intact, the way in which we achieve these principles must be negotiable. There is nothing wrong or shameful in negotiation.

It would be a tragedy for Canada if we were to simply be a country in which everyone had their grievance and in which no one had the imagination or the vision or the courage to expand their understanding beyond their sense of grievance.

So there's nothing wrong with being for yourself. I resent, not at all, the fact that the Native people came to the table with a very long list of demands and with a very strong sense of grievance. None of us should resent that.

None of us should resent the fact that Quebec has felt left out and that Mr. Bourassa represented his own province with great distinction and with great vigour. And with great determination.

You know, there are parallels for this and one doesn't only have to go back to 1981 or 1971. We can go back to the origins of Confederation itself. Let's not forget that there was a dramatic problem in the legislature of the two Canadas in about 1861.

Partisanship was very high. The issues were enormously divisive. Language, religion, some of the toughest issues that we have to deal with as a country were at their most emotional and rawest point. And it was George Brown, senior representative of Upper Canada, who had very strong views on a number of subjects, who said let us all together form a government and let us all together work on this idea of federation.

And sure enough a coalition government was formed which included everybody. And sure enough the recognition was that it's important to have your sense of grievance and it's important to have a sense of what it is you're seeking.

There are those who call this blackmail. What more inappropriate or unthinking way to describe the political process in Canada. It is rather the simple and fundamental reality of this country that people representing a variety of interests will always come together speaking for those interests. And there is nothing shameful or wrong in that.

It is healthy for people to speak up and insist on their place at the table. It's how we make reform; it's how we make progress.

But as Mymonides points out, that's the first question. It's worth remembering. Nothing wrong with speaking up for yourself.

But if I am only for myself then what am I? And that to me is the critical question. I listen to the comments that are made with respect to the No option; it's so easy to be against. Because you can always pick and pick and pick and pick. We have developed a political culture now to the point where the sense of grievance is sometimes so great, the sense of focus on a single issue or a single interest so great, that we miss the point of the exercise—that we're trying to build something. If we went into that discussion and I said "this is what I want," and Ovide Mercredi said "this is what I want," and Robert Bourassa said "this is what I want," and when the microphone came back to me I said again "this is what I want" the discussion would go on endlessly.

And we miss the point of the exercise if people simply seek to pursue their own self image, without thinking of the larger whole. Then, we would have failed and then we would have been worthy of the criticism of Canadians for failing to do our job and of failing to bring it forward.

I had calls from people in March and April questioning how 17 representatives, 17 governments could possibly agree on anything. And I said: Because I believe that there's a common sense that will grow in the country, that there has to be a spirit of accommodation and reconciliation large enough that we can walk a mile in the shoes of other people. And that's what we have to do.

If we don't want to belong to a federation, then we can forget about that. We can just say this is what we want, this is what we're going to do and we can forget about anything else. There's nothing easier than negotiating in a mirror.

The world is full of perfect constitutions written by one person. In fact listening to some of the critics, I suspect that they have the perfect idea. And any sense of accommodation is regarded as appeasement or a complete failure to recognize the importance of principle.

Well I'm sorry. A successful country, a successful federation, a country in which we take these balances seriously, is a country that can only work if we deal with this question: If I'm only for myself then what am I?

So, to explain part of Ontario's role, we want the Social Charter. We don't want the Social Charter for us; we want it for Canada. We think it's important to have a strong statement of value about our social economic union in the Constitution.

Ontario is a very vigorous advocate on behalf of a reconciliation of the Aboriginal people of Canada. And I'm proud of that role. We tried to deal constructively and effectively with the agenda that was presented to us by the province of Quebec. And we listened to the sense of grievance and concern that exists in Western Canada, in Atlantic Canada. Because if we go into these discussions saying it's my way or the highway, we can't succeed.

And then we come to the last question. If not now, when?

Well, we have all kinds of arguments about the Accord coming from all kinds of people. I watched television the other night and there was a state of angst from the Nos, all kinds of people coming and saying no. And what troubles me more than anything else is this dangerous sense of illusion—that if we say no, it'll go away.

I saw Mr. Parizeau in the debate last night. He said that if we say No, then the issue can be put aside and we can get on with the economy, which is the real issue in the country today. It's a real issue for Quebec and it's a real issue for Canada.

And I said to myself: What does he take us for? The idea that the party committed to the dismantling of the country and to independence for Quebec is going to take a No vote as an indication to put that aside for a while!

Let's talk directly to the Canadian public about what is really at stake here. I've never been one who says that this will happen or that will happen. All I can tell you is anybody who thinks that a No will have a positive impact on any part of the country is dreaming in technicolour and is peddling an illusion to the Canadian people. They call it straight talk. Well it's not straight talk, it's nonsense. We have been at this as a country for generations.

First, there was the squabble about whether or not to patriate at all and that took years and years and years. Finally we get the Charter of Rights and patriation, at a price which I was prepared to pay. Premier Davis was prepared to pay and I think we were right; we had to get the Constitution home.

But now the next step is to make sure that everyone feels included. And we have done that on the substance of the legal text. We have made advances in terms of Quebec's Distinct Society. We have made advances in terms of Aboriginal government. We have made advances in terms of Senate reform and Supreme Court reform.

We have made advances in terms of ensuring less duplication, less mismatch of tax dollars and spending, greater efficiencies in the way we deliver programs. And we have done this without taking anything away from the strength of the Charter of Rights and Freedoms.

It's not a miracle and it's not a conspiracy. And it's not Mr. Mulroney's deal. Mr. Mulroney's not on the ballot. This isn't some personal document which flowed from his head or his agenda. And it didn't just come from the Premiers, didn't just come from men in a room. Let's blow these myths right out the door. It came as a result of people and their elected representatives, women and men working together for months and months and months trying to find the basis for reconciliation for this country. That's what it represents.

And when you look at it, even if you find a paragraph or a phrase that you don't like, even if you feel that there's been something left out, the question you have to ask yourself is: "If not now, when?" And does anybody think that it's going to be easier after a No?

When I hear these comments, I am left feeling that it's time we have to talk with passion and we have to talk with directness and we have to talk with enormous common sense.

Set the issue of patriotism aside. I'm not saying that anyone who votes Yes or No is a better Canadian or a better patriot than anyone else. I don't believe that.

What I do believe is that it's a whole lot wiser and smarter and more sensible for us to vote Yes than for us to vote No. And when you look at what a referendum represents, it represents an example of saying to the Canadian people: We are trusting your judgment. Exercise that judgment with the same prudence you would ask of me.

Put yourself in the shoes of the Premier who's sitting at that table having to make concessions and having to give and having to take—having to weigh, in balance every day, what the measures are.

We are not talking absolutes here. We're talking about the real world of compromise. And imagine, if you can, taking 17 citizens at random and putting them in a room and asking them to represent the places and provinces and interests from which they came. Do you think you'd come up with something dramatically different from what's here?

I honestly believe the answer is no. It might be different in a few phrases here and there. And there's nothing that says that once this is done, it can't be improved.

Let's be straight and honest with the Canadian people. There's one heck of a difference between constantly negotiating the very foundation of the existence of the country, and the way in which it's going to be reformed, and having the every-day discussion that goes on between all of us with respect to how we're going to run and organize our lives.

There is one great difference between that process of give and take in every-day life and the constant return to the agonizing, existential questions about Canada itself. There's only so much time we can spend in this particular rut. There's only so much time we can spend on this couch. And then it starts to become dysfunctional.

And that is the challenge that we face. We have been working hard and we have negotiated; we have come up with a reasonable accommodation. A Canada Clause which does not subordinate the Charter of Rights, does not devalue the Charter of Rights. It simply recognizes that Canadians are equal before the law but there are also differences between us which have to be accommodated and we ask the courts to take that into account when we interpret the rest of the Constitution.

Everyone can see some sense, some common sense in Senate reform. Reform of the Supreme Court, reasonable. Division of powers, a reasonable balance. Aboriginal self-government, reasonable in the way it's been done, and necessary historically, a reconciliation which must take place.

Responding to Quebec's sense of its own vulnerability in the changing world, in a North America in which they are a very tiny minority, reasonable. But an insistence, as well, that there is a federation and that we are all members of the federation. And that we all participate in the federation. A reasonable accommodation.

I believe profoundly that this is a moment of reconciliation. And I also believe, as profoundly as I believe anything, that anyone in public life who says they know what will happen if there is a No vote is nothing but a pedlar of illusions and snake oil.

No one knows.

We do know what will happen if we vote Yes. We do know that it will lead to a process of Constitutional reform. We do know that it will provide the basis upon which other positive things can happen. We do know that it will represent a sense to Canadians that we have worked hard at something, that we've produced a compromise.

Canada can be a success story. It doesn't have to be a constant sense of grievance and a constant sense of the eternal search for the picayune. It can be a chance for us to reconcile ourselves with one another and then get on with what it is we expect our governments in most mature countries to spend their time doing.

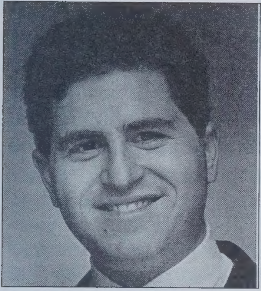
And that, it seems to me, is the common sense basis of the support of the Accord which leads to a Yes. I think the Accord deserves your whole-hearted enthusiastic support. I think the package that it represents is a very successful accommodation. It is in the best spirit of Macdonald and of Cartier. It is in the best spirit of reconciliation which has always brought Canadians together at critical points in our history.

It is also, if I may say so, from a strategic point of view, the smart and canny thing for us to do. It is the wiser course. It is the more prudent course and it is the better course, if what you are looking for is not so much an assessment of each clause but the overall impact.

So take it either way, I really believe that we have to speak to this directly and personally and with this level of concern and attention to each and every Canadian.

The referendum is about all of us. It's about our Canada and it's about our common sense of freedom and our common sense of opportunity. Let's take it while it's there. Thank you very much.

The appreciation of the meeting was expressed by Robert L. Brooks, President, The Empire Club of Canada.



October 15, 1992

Michael Dell

Chairman and CEO, Dell Computer Corporation

THE EGOLESS CORPORATION

Chairman: **Robert L. Brooks**
President, The Empire Club of Canada

Introduction

To most of us, a person as successful as today's guest holds a certain fascination and curiosity. We expect to hear that a man like Michael Dell is really somehow very different from us.

We expect to hear that at the age of six months, although barely able to sit upright, Michael Dell was dressing himself and tying his own shoes.

We expect to hear that by the age of five, Michael Dell's first lemonade stand was so successful that he franchised; that today there are thousands of Michael Dell lemonade stands being run by millions of five-year-olds the world over!

We expect to hear that the character Horatio Alger was loosely based on the life of Michael Dell.

We expect to hear these things because it's the only way we can justify the fact that this man has made hundreds of millions of dollars before hitting 30, while the rest of us are still waiting for our lottery ship to come in. Either you make up some myths about the guy or you go crazy.

Well, the remarkable thing about Michael Dell is how closely his life does resemble the traditional 'Anyone can make it in America' myth.

Mr. Dell grew up in Houston. Like many other boys and girls, he delivered newspapers. For most the story ends here. But Michael, always eager to find new marketing ideas, hired some friends to go to the county court house to copy down the names of newlyweds. He then targeted these couples through direct mail with special introductory offers of free delivery for two weeks. By the time he was 17 he had made over $18,000 delivering newspapers.

In college, he began buying personal computers from the excess inventory of local retailers. He would soup these up, as if he were turning old Chevies into hot rods, and sell the new, high-powered product through ads in local papers. He made $50,000 a year, and left school to run the business.

In 1984, he founded Dell Computer Corporation. His goal was to offer high-performance, competitively-priced personal computers to businesses. Sensible enough, since his competition was just a couple of lightweights: IBM and Compaq.

In its first seven years, Dell Computer's sales grew from $6 million to more than $546 million. Analysts are projecting that this year's sales will reach $1.9 billion. Amazing! But let me add a few more numbers: Fortune magazine recently ranked Dell the 77th fastest growing company in the U.S. With sales growth averaging 56 per cent per annum in the last three years, annual earnings growth was a mere 35 per cent. Oh yes, and this year to date sales are up 120 per cent while earnings almost doubled, and the return on equity was greater than 25 per cent.

There's a saying that the great thing about being young is that you're not experienced enough to know that you cannot possibly do the things you're actually doing.

Michael Dell obviously took that to heart.

Ladies and gentlemen, please join me in welcoming a man whose record suggests he'll never grow old.

Michael Dell

Good afternoon ladies and gentlemen. I am honoured to be here today and would like to thank The Empire Club for the invitation.

It's always a pleasure talking about doing business in the 1990s and beyond, and I hope my comments will have some relevance for your businesses, regardless of industry. After all, we're all facing increased competition and our customers are all becoming more challenging to please.

It is a battle to please customers—no matter what industry you're in—but in the PC industry it's more like a war! And Dell fired the first shot back in 1984 when we challenged the traditional distribution model and began selling computers directly to end users. Today's computer war comprises many small battles and is symptomatic of a shakeout that will change the PC manufacturing landscape forever.

In any war there are winners and losers, and I'm absolutely committed to making sure that Dell emerges as one of the winners. Dell's future success, like yours, will depend on our business model.

What is the right business model for survival and for prosperity? At Dell, one of our senior executives coined what I think is an appropriate term to describe what we're trying to maintain—that term is "survival."

How do we go beyond surviving recessions and price wars, and become thriving businesses despite these conditions?

It's no secret that the computer industry has witnessed unprecedented challenges over the past 18 months. The market has changed dramatically. Competition in the PC industry has never been fiercer and there is no shelter anywhere for the inefficient in today's global market. I really think that those who finally win this war will be a new breed of technology companies—companies with different "looks" and different attitudes about our industry and our customers.

These winners will be fast, flexible and focused on the customer. And they'll grow rapidly thanks to this new character.

Last month, Fortune magazine published a report on America's 100 fastest growing companies and Dell was again among them. In analyzing what these 100 companies had in common, Fortune has quoted Alan Webber, editorial director of the Harvard Business Review. Webber called this new breed of organization the egoless corporation.

According to Webber, the egoless corporation is wholeheartedly focused on the customer. It listens and then responds to customer wants, rather than thinking they, management, know what's right.

I love this idea of the egoless corporation because it's a good model for any company that intends to be successful in virtually any industry—mine included.

Although the computer industry is a relatively new industry, it has matured quickly and a lot of companies have already assumed an old style of doing business. By that I mean, they have let themselves become complacent and arrogant. They are overly protective of the old ways of doing things and past triumphs. They're parochial about technology, they have little contact with their customers, they have a high cost base and they have an out-of-date and inefficient business model.

These organizations should try and learn from the egoless corporations.

So, how is the egoless corporation built?

If the egoless corporation is characterized by a customer focus, then companies have to look at how close they are to their customers. I'm sure we all know companies that are adopting this closer-to-the-customer strategy.

But even going direct or getting closer to the customer is no guarantee you will successfully navigate dangerous water.

Dell's direct business strategy, for example, is underwritten by a huge investment in our customer relationship, research and development, information systems and, above all else, terrific people. For Dell, direct is not a religion. Direct is a strategy. Customer satisfaction is our religion. Direct is the best means we know of satisfying our customers—therefore, we've embraced it.

But some think that implementing a tactic like direct marketing or, another popular tactic, like total quality management (TQM), will be the end of their problems. It won't happen. If you're not customer-driven, even the slickest tactical program or strategy will fall flat on its face.

Direct marketing or TQM are simply a means to an end. They don't solve problems by themselves. Dell is built around the efficient delivery of technology solutions that, thanks to our direct relationship with our customers, is well targeted and difficult to duplicate.

And, as I've said, we are not blindly committed to the direct channel. We are fixed, however, on customer satisfaction.

A second principle of the egoless corporation is that it listens first, acts second. If the creed of retail is "location, location, location," the creed of the egoless corporation is "listen, listen, listen!"

Dell's innovation was as much in PC marketing as it was in technology or product quality. Listening to customers, identifying their needs and acting to meet those needs is our basic approach. Not a revolutionary concept.

Our secret, however, was that we listened better than the competition. We identified a better way to sell to customers—by getting closer to them and listening to their wants.

One important thing we learned from all this listening is that customers' needs do not change, their priorities do.

The year 1991 saw the death of premium pricing for PCs, as users placed a higher priority than before on overall value. Price relative to performance has become a major driver for customers, but it's not the only one.

And this is where many of Dell's "direct" competitors have got it wrong.

Customers of any product or service are knowledgeable enough these days to know what they are paying for. They understand the difference between "purchase price" and "cost of ownership." What they buy is a certain core competence from a PC manufacturer; and price is not a core competence.

To survive into and beyond 1993, you have to offer more than just low prices. You have to have clearly identifiable, valuable, competence—competence that a customer can see, weigh and invest in.

Another requirement of the egoless corporation is that it be internationally cost competitive. The North American Free Trade Agreement (NAFTA) and the emerging European trading bloc are changing the way all companies compete.

For many businesses, the challenge is to reduce costs or die.

I am sure you've all done the equation. As prices fall, the only way to maintain your margins is to reduce operating costs. Cost control is a way of life.

I can certainly tell you it's a way of life for us. Dell's results for the second quarter of the current fiscal year show that operating expenses represented approximately 16 per cent of revenue, down more than eight percentage points from operating expenses in the same quarter last year, and down more than two percentage points from the first quarter of this fiscal year.

This decrease in operating expenses has substantially offset lower gross margins that resulted from our aggressive pricing actions. And we aren't planning to stop at 16 per cent; we have plenty of other ways to keep those operating costs down.

The same quarter also saw our inventory drop to record low levels—just 6.3 weeks of supply. Compare this with the 12 weeks of some other manufacturers. Dell can do this because of our direct relationship with customers—we know what they are going to buy and we build every system to order. It's a simple and very efficient formula which gives us a real operational edge.

Bottom line: If it doesn't add value for the customer, then don't do it. Don't have a glamorous corporate headquarters and fleets of cars. Don't have too many layers of management. In other words, act small. Act like small, flexible companies act.

There are no corporate secrets about controlling operating costs; for some companies it may require a change of attitude, but it is an opportunity that anyone can take advantage of.

For instance, recently each department and international subsidiary within Dell came up with ideas for how we could reduce operating expenses. At Dell Canada, each department had a brainstorming session and each and every employee had an opportunity to provide input into their area or other areas of the company. The cost and way of doing business is different in each country and we encourage employees in each Dell subsidiary to influence how their organization is run.

Dell Canada recently reviewed and changed shipping methods and is saving $50,000 per month as a result. Using the customer database and faxing Dell announcements overnight has saved thousands in postage. Overall, Dell Canada has increased revenue this quarter over last by 70 per cent without increasing expenditures.

As I said a few minutes ago, it's my experience that customer needs don't change, their priorities do. That said, I think a real key to survival is the ability to constantly reinvent yourself as a corporation. Shifting customer priorities means that the successful companies are those that can quickly rise to the challenge of meeting constantly changing demands.

We're all moving targets. As the market grows in sophistication and customer groups segment, it is inevitable that, whatever you do well, someone will come along and do it more cheaply. And bang goes your business.

The solution is adding value, staying ahead by providing extra value through that core competence you have.

Dell is better positioned than most because we stay so close to our customers. I'd like to cite one example of how we added value by listening to customers. Customers complained that it was difficult to access the inside of big servers on the floor under the desk. So, we added wheels to the system and made the cards accessible from the top. This is not a major breakthrough in PC technology, but it certainly adds value as far as the customer is concerned. It also illustrates our ability to measure the pulse of customers by listening and acting quickly.

Listening to customers and soliciting their feedback acts as a kind of radar on which egoless corporations thrive. Radar, in the sense that it indicate shifts in demand, conflict, satisfaction or when a problem might be brewing.

Egoless corporations stay competitive by listening and acting quickly.

Working in tandem with listening to customers and acting quickly to meet shipping demands, is being accountable. So, the egoless corporation is the accountable corporation.

We are living in the age of the customer-driven company. It is time for an even newer commitment to customers. It is time to see some real accountability and some guarantees with teeth. Simply stated, what was considered outstanding customer attention a year ago is no longer enough.

That's why we recently announced service, responsiveness and compatibility guarantees to Dell customers—the first such guarantees in the PC industry. Since compatibility is specific to my industry, I'll expand on these responsiveness and service guarantees.

If a customer phones Dell's toll-free technical support line, Dell promises that a technician will be on the phone with that customer within five minutes. If the customer cannot hold, we promise that a technician will call back within the hour.

We don't just promise, we guarantee it. If we do not keep this promise, customers get a cheque for $25, or $25 off their next purchase. I'm pleased to say, that over the past few months, we've paid only 11 cheques—out of nearly 5,000 technical support calls per day we receive in the U.S. In Canada, we've paid only one cheque based on 14,000 calls in the past two months.

The same goes for the next business day, on-site service we promise. If a technician does not arrive on-site by the end of the next business day, we will make that call a priority and add one month of service, at our expense, to that customer's service contract.

The difference in the 1990s is that it's not enough to just make promises to customers. As corporations, we need to put our money where our mouths are and guarantee satisfaction or be willing to pay a price. It's a necessary commitment—one we feel is imperative to maintaining customer satisfaction and ensuring that we are a regular on Fortune's list of fastest growing companies.

I've talked a lot about the egoless corporation. Let me use an illustration to help define what it looks like. It is a wheel, with the customer at its centre. The customer is the focus of the whole organization. All the operating departments like marketing, finance, manufacturing and sales ring the customer hub.

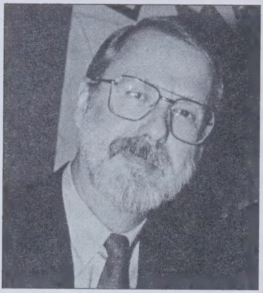
This is a flexible model for success. Without layers of hierarchy it can move extremely quickly. People are empowered to act, to take initiative. Everyone is customer-focused. Today, I think that within companies that have this model, you experience a very different sort of management process, where the worker becomes the decision maker; the middle manager becomes the leader; and the leader becomes the visionary.

To sum up my vision of the egoless corporation of the 1990s, it will be:

—Totally focused on and close to its customers
—Willing to abandon old notions — even successful ones
—100 per cent accountable to its customers for its products and services
—Committed to listening, reacting and moving with great speed
—Ultra-efficient in every aspect of its operations.

A tall order, but our very business survival may depend upon our ability to become egoless corporations. Thank you for your kind attention.

The appreciation of the meeting was expressed by Harry Seymour, President and CEO, Pathfinder Learning Systems Corporation and a Past President, The Empire Club of Canada.



October 22, 1992

Michael L. Durkee

Consul General of the United States

REDEFINING GLOBAL RELATIONS IN THE POST-COLD WAR WORLD

Chairman: **Robert L. Brooks**
President, The Empire Club of Canada

Introduction

Distinguished past presidents, fellow members and friends.

Those of you who know our scheduled guest speaker, Ambassador Peter Teeley, will by now have noticed that he is not the gentleman sitting to my right. Unfortunately, due to an urgent family matter, Ambassador Teeley was not able to leave Ottawa to join us.

However, since the meeting is being held here in an American League city, he has graciously arranged to be represented today by a designated hitter, Mr. Michael Durkee, the United States Consul General here in Toronto, who will deliver the Ambassador's remarks.

Since 1990, Mr. Durkee has been the Consul General of the United States here in Toronto.

It must be said that Mr. Durkee is not a politician. But as Consul General, he takes very definite positions on the issues of the day. He has a definite position on the role of government; he has a definite position on the Free Trade Agreement; and he has a definite position on the World Series—Go Dodgers!

It seems Mr. Durkee is somewhat more of a politician than one might suspect. And he is somewhat of an optimist too if he is still supporting the Dodgers.

Michael Durkee has had a distinguished career in the service of his government.

Born in Gloversville, New York, he graduated from Colgate University in 1961. He was a Fulbright Student at the University of Oslo, and after military service did his graduate studies at Harvard University.

He joined the U.S. Foreign Service in 1967 and has served in Ecuador, Norway, Chile and Finland. On three occasions, he has served in Washington, working on a range of issues from Spanish affairs to arms control. Prior to his arrival in Toronto, he served for four years as Deputy Chief of Mission of the U.S. Embassy at Helsinki.

Unlike his colleague in Ottawa, Ambassador Peter Teeley, Mr. Durkee will not be obliged by tradition to resign if the Bush Administration is defeated on November 3rd. Nonetheless, his position on the U.S. election is as clear and unequivocal as his position on the world series: Go Truman.

Ladies and gentlemen, a few weeks ago we were addressed by Karl Otto Pohl from Germany, speaking on the events that have been transpiring in Eastern Europe. Today our speaker will be addressing a related topic as he discusses international relations in the post-Cold War Era.

Ladies and gentlemen please join me in welcoming our distinguished guest.

Michael Durkee

I want to thank The Empire Club for inviting me to speak, and for very thoughtfully scheduling my appearance at lunchtime. I suspect that I'd have about as much chance of drawing a crowd in this town tonight as Tony LaRussa speaking on the art of playing winning baseball.

The title of my remarks makes reference to the end of the Cold War, and I'm sure everyone in this room recalls the exhilaration with which the world greeted the crumbling of the Berlin Wall in November, 1989. Its collapse marked the end of the ideological confrontation between East and West. It celebrated the victory of democratic pluralism and free markets over political dictatorships and centralized economic planning.

All of which leads me to a question: If the Cold War is over, why don't we feel any better? One answer, of course, is that we find ourselves in the grip of a persistent global recession. Another must be the relentless images of human tragedy which appear on our television screens and front pages of our newspapers day after day.

And finally, I would suggest a certain amount of disorientation is bound to occur when the old frame of reference, within which the world conducted its affairs for nearly a half century, falls away, creating the need for nations to devise new ways to do business with one another.

Let's begin, then, by looking at the way things were, and turn our attention to the way I believe they must be if we are to confront successfully the challenges which face us in this post-Cold War environment.

With the close of the Second World War, a world order emerged which was to exist for over 50 years. Initially, the economic sphere was unipolar, with the United States often exercising decisive influence. We poured billions of dollars into the reconstruction of Europe and Japan.

We provided the economic and political leadership necessary to create the institutions which can claim much of the credit for the greatest period of global economic growth in history. These institutions are the International Monetary Fund, the World Bank, and the General Agreement on Tariffs and Trade, the GATT.

In the realm of security issues, the world was bipolar. Competition between East and West and, more specifically, between the United States and the Soviet Union, defined us.

As the Cold War ended, so did the ideological and superpower confrontation which characterized it.

The security impulses which encouraged major industrialized nations to suppress or moderate their differences have diminished. The old realities driving Western foreign policy have disappeared—the emphasis on anti-communist military alliances, a bipolar international system, and the ideological dynamic of two very different value systems.

All of this is now gone or disappearing.

Today, relationships, both economic and security, are increasingly multipolar. From the United Nations to the GATT Uruguay Round, from the Conference on Security and Co-operation in Europe to the NATO, from the EC to Asia Pacific Economic Co-operation, nations can compete or co-operate to suit their particular needs, without the hindrance of having to worry about political ideology and strategic alliances. There is a fluidity, a lack of identifiable leadership, which was not apparent before the collapse of communism.

This new environment of economic competition finds its roots in the dynamic of two separate but equally powerful global trends:

First, the globalization of the marketplace—the speed with which goods, services, capital and people move across borders. In this environment, competition is toughest among global corporations, without respect to national boundaries.

In this environment, economic benefit is awarded to those who perform the best—the most innovative, the most efficient, the quickest to identify and take advantage of global trends.

In this environment, knowledge becomes the most prized resource. As a result, our commitment to education is critical if we hope to remain competitive. We must provide the motivation and the opportunity for our children to acquire the skills necessary for success in the workforce of tomorrow.

The second and competing factor influencing this new economic environment is the pressure to protect domestic jobs and markets at any cost. The flames of protectionism are fueled by the painful, fundamental and inevitable adjustments industrialized countries must make to be a strong competitor in a globalized economy.

Governments must be prepared to respond effectively to the social cost of this restructuring, especially in the matter of employment and worker retraining.

Persistent slow growth in the U.S. and other industrialized countries will only sharpen the need for effective labor policies while, at the same time, leading to stiffer competition for markets and reinforcing protectionist pressures.

The interaction of these two trends will, in my judgment, cast a shadow over international relations for the foreseeable future. The old bipolar system will be replaced by a world anchored around three central economic powers—North America, Asia, and Europe. How the leading economic, commercial and technological centres manage their relationships will be critical to the prospects for renewed prosperity during the first part of the 21st Century.

Over the years, Canada and the United States have presented the world with an enviable record of relationship management, in this case, the world's largest and most dynamic trading partnership. The bilateral Free Trade Agreement, now nearing completion of its fourth year, and the recently negotiated North American Free Trade Agreement, are signal accomplishments in how to incorporate the strengths of each participating nation—and that now includes Mexico in the NAFTA—into a strategy which enables us to face the challenges of the global marketplace and turn them to our advantage.

In his address to the UN General Assembly last month, President Bush stated that economic security, opportunity and competitiveness will become the primary goals of the United States in this new era.

The president also noted that prosperity is essential for world peace, along with peacemaking and non-proliferation. This prosperity depends on a growth-oriented international economic order, an order which safeguards the environment, and an order in which the private sector is the engine for the expansion of developing economies.

And the fact is, the world economy is changing so quickly that governments are hard-pressed to keep pace, to formulate policies which will ensure that all elements of society share in the benefits of global trading relationships. Seen in this context, the free trade agreements negotiated between our two countries and, most recently, with Mexico, are even more impressive, because they ensure economic growth for North America in ways that benefit all participating nations.

These agreements represent the best efforts of nations to adapt to a rapidly changing global environment. At the same time, we see an altogether different—and not surprising—reaction on the part of some sectors in both Canadian and American societies. I'm referring, of course, to those who would simply prefer to let the world pass us by.

To turn back the clock. To rebuild the walls we have worked so hard to tear down. To protect domestic industries from overseas competition. In other words, to doom our nations to an ever-diminishing standard of living and, ultimately, to economic failure.

The developing nations of the world see the folly in this way of thinking. They are moving with striking speed to put in place the economic reforms needed to gain access for their goods to our markets by ensuring that our merchandise and services receive the same access to their markets. Self-interest at work? Of course. Mutually beneficial? Absolutely. Trade, after all, is not a zero-sum game.

These nations recognize, as we all must by now, that free and fair trade is good for everyone. Indeed, one can argue that communism's defeat ultimately can be traced to the Western World's phenomenal economic success stemming from a series of unprecedented historic initiatives taken in the wake of the second World War—the Marshall Plan, GATT, Bretton Woods, the Treaty of Rome. The general opening of a robust global marketplace, which the communist states deliberately rejected, in effect planted the seeds of their own destruction.

Because we know that economic prosperity and political democracy go hand-in-hand, we must work closely with progressive elements in those nations moving slowly, sometimes reluctantly, but nevertheless inexorably, away from state-controlled economies towards market-oriented systems.

At the same time, we cannot allow ourselves to lose sight of the fact that this world remains a volatile place, full of risks and uncertainties, not limited, by any means, to the economic sphere. Regional conflicts, arms proliferation, even the continued instability within the former Soviet Union, all need to be addressed effectively, or we will find that the gains of recent years have evaporated and we are faced, once again, with serious military threats to our security.

In this respect, the co-operation which Canada and the United States demonstrate on so many fronts establishes a pattern which I believe other nations will try to emulate in their own relationships. As founding members of NATO and partners in NORAD, our two countries have used geographic proximity and shared political values to develop a security relationship unmatched in the world.

As we look ahead, I believe we will find this co-operation increasingly taking place in the context of the United Nations. Even here, though, we can see subtle changes indicating a shift to a more economic character. Discussions on nuclear non-proliferation resolutions have been joined by talk of trade sanctions, managerial reform of the UN system, and the crucial question of financing peacekeeping.

Clearly, in a world busily developing ways to privatize industry, integrate markets, and weather historical volatility in capital flows of $1 trillion a day, global stability will be determined less by ideological fiat and more by the forces of economics and finance.

In today's world, political leadership means global stewardship, and effective global stewardship depends on meaningful international co-operation.

No one has more experience in this regard than Canada and the United States, and no one has had more success.

We already have redefined the way sovereign nations conduct their relations with one another, demonstrating what can be achieved by building on a foundation of shared values, common goals and mutual respect.

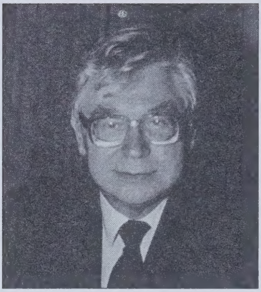
For us, it is a way of life. For other nations, it is a whole new way of doing business. In this post-Cold War world, as the community of nations searches for models to follow in its own relationships, it will turn increasingly to the model in place in North America.

Ladies and gentlemen, the exhilaration of communism's end may have faded, but the opportunities which emerged from its ashes remain. Our two nations confront these opportunities with the optimism of societies unafraid to place their fate in the hands of their citizens.

The democratic traditions we share of individual freedom and economic opportunity were sufficiently strong to topple communism's most feared symbol, the Berlin Wall. Certainly, they are strong enough to lead us into the next century and toward a peaceful and prosperous future.

Thank you very much.

The appreciation of the meeting was expressed by Willis Blair, Secretary, The Empire Club of Canada.



October 29, 1992

His Excellency Alexander M. Belonogov

Russian Ambassador to Canada

REFORMING RUSSIA: PROBLEMS AND PROSPECTS

Chairman: **Robert L. Brooks**
President, The Empire Club of Canada

Introduction

Canada and Russia have many things in common: hockey, the weather, and a plethora of untapped natural resources. And, at the moment, we both also face political and economic challenges.

The past few years have witnessed the unfolding of a remarkable struggle within Russia to achieve a Western-style market economy. The challenge has been made even more difficult by the inefficiencies left behind by the former communist system. From the establishment of co-operatives to the issuing of privatization vouchers, a lot of effort has been expended by the Russians to make the reforms work. Complicating the situation is the status of the ruble. It is undervalued but no one knows by how much.

Adding to this complexity is the human trait of resistance to change. The early enthusiasm for a market economy has begun to turn to criticism and hostility from a population weary of shortages and the pace of reform. As John Galsworthy said: "Idealism increases in direct proportion to one's distance from the problem."

And the problems faced by the Russian people are nothing short of overwhelming.

His Excellency, Ambassador Alexander M. Belonogov, was posted to Canada in April by President Yeltsin. Prior to that, he served as Deputy Foreign Minister of Russia, capping a distinguished diplomatic career spanning more than 30 years. As a former Soviet Ambassador to the United Nations and Soviet representative on the United Nations Security Council, he has had a wide range of experience in international relations. He played key roles in attempts to mediate a peace settlement before the 1991 Gulf War and to secure peace in Afghanistan.

Western nations have undertaken many initiatives to try to ease Russia's transition to capitalism. But, with growing political uncertainty in Russia and recession in the West, many governments have been forced to lessen their involvement in bringing former Soviet countries in to the capitalist fold.

Mr. Belonogov has made it quite clear that he is here in part to invite investment in his country. And, as any hockey fan can attest, the NHL has not been shy in taking advantage of Russian resources, so perhaps we should return the favour.

Today our speaker will be discussing the topic of Russian reform, its challenges and its opportunities.

Please join me in welcoming His Excellency, Ambassador Alexander Belonogov.

Alexander Belonogov

It is a singular honour for me to be invited to share my thoughts and views about the reforming Russia before an audience as distinguished as The Empire Club, well known as a reputable venue for thoughtful and constructive dialogue.

I am particularly pleased to have an opportunity to address my remarks to prominent people of the Canadian business world and to representatives of young Canadians who will eventually take upon themselves the responsibility for the future of Russian-Canadian relations.

Russia is very much in the news, even though we have no Blue Jays and more and more talented Russian hockey players choose to enjoy the hospitality of NHL clubs, instead of being sensations on Russian ice.

But it looks as if we are in the news partly because we fully share your famous love-hate attitude towards constitutional reforms. More and more they seem destined to become our dear, perpetual companions. Indeed, during the last 70-odd years, the people of my country had the dramatic pleasure of bidding farewell to at least five constitutions.

And now the Russian government is in a fierce fight with the Russian Parliament (or vice-versa) as to when to convene the Congress of People's Deputies to adopt still another constitution, and what it should provide or not provide.

Joking aside, your interest, ladies and gentlemen, in Russia and its future is more than well founded. It is not just an issue of vital importance for citizens of Russia, it is an international, I dare say, global issue, given the dimension of its possible consequences. Russia is, and will remain, a great power. The big question is what sort of power and what policies will it pursue?

Now we are head over heels in reforms, all sorts of them—political, structural, administrative, social, judicial, but foremost, economic reforms—a subject in Russia as vast, complex, multifaceted and fascinating as the country itself. Having resolutely and simultaneously started a process of numerous radical transformations, Russia is on the move.

The results of the first 10 months of this painful, and sometimes controversial movement, provide fodder for various—sometimes totally contradictory—interpretations. Pessimists and optimists alike find themselves on shifting ground, confounded by unfolding events.

Needless to say, serious problems have emerged. This year economic output in Russia has fallen by a further 15 per cent. Quite a number of factories are on the verge of closing. Living standards of millions have dangerously deteriorated. Add to this, sky-rocketing inflation, a soaring budget deficit, the rapidly deteriorating state of our national currency, the growing burden of foreign debt, a still-reluctant and, in some instances, hostile attitude of many industrial managers towards the government's implementation of economic reform, and you have a fairly accurate snapshot of the negative side of our transition to a market economy.

Many people in my country are now wondering whether the invisible hand of the market is not really an iron fist.

And let me remind you that this happens against the background of institutional debris of the demolished Soviet Union, the collapse of strong central authority, spreading corruption, rapid growth of the crime rate, drug trafficking, black-market arms trade and the activity of Mafiosi structures.

Small wonder that such a state of affairs provides more than sufficient ground for accusations and counter-accusations, sometimes unsavory political attacks and mounting inter-party rivalry within Parliament and without.

However, to the perceptive eye, these clouds reveal a silver lining. For all the economic hardship, Russia has succeeded so far in avoiding serious social upheaval and disturbance. So far the Russian people have accepted breakneck change with remarkable patience and understanding.

More than just a sign of hope is also perceptible in the nature of the evolution of our internal political system. The facts of the day in Russia are—an absence of political prisoners, political pluralism, democratic elections, absence of censorship, freedom to travel abroad and to emigrate, depolitization of state machinery, including the armed forces, and institutionalization of the separation of powers among the legislative, executive and judiciary branches, a renaissance of religion, and many other phenomena, either unknown or violated in times past.

These changes are of profound importance, as are those in the state structure of the Russian Federation. This year, all but two of Russia's 80-odd territorial subdivisions have signed a federal treaty dividing powers between them and the centre. This significantly increases the chances that one of the great concerns about the Russian Federation—that it may break up—can be contained.

In his latest speech to the Russian Parliament, President Boris Yeltsin underlined the necessity of broadening the political and social base of our reforms by the consolidation of various political movements. Having suggested that the present government be more open to ideas other than its own, he clearly expressed his intent to intensify constructive dialogue with various political forces, including the opposition.

Some positive developments can also be identified in the area of co-operation among former Soviet republics—members of the Commonwealth of Independent States (CIS). Despite the host of unsettled questions, persistent suspicions, and rivalries, a recent meeting of the leaders of CIS states in the capital of Kyrgizia Bishkek has underlined the growing consensus on numerous issues among Russia, Belarus, Kazakhstan, Uzbekistan and Kyrgyzstan.

It appears those five states are moving progressively towards the creation of a new integration nucleus with more clearly defined structures and mutual commitments.

I would like to believe that this positive trend heralds a better situation within the Commonwealth, actually making it a two-speed community. The core of this emerging two-tier interstate structure would be composed of a solid inner circle of member-states closely co-ordinating their policies. According to their priorities and perceptions, other member-states would be able to adjust the speed and degree of interaction with this circle on a strictly voluntary basis.

This flexible scheme of co-operation provides enough room to manoeuvre and accommodate various national aspirations so that present-day laggards are not doomed to be laggards forever.

In the economic sphere, one shouldn't fail to spot those visible and reassuring signs of progress that bode well for the proclaimed reforms. They can be found in the steadily increasing privatization of shops, services and small enterprises; the growth of market activity on every roadside; the growing self-confidence and experience of the entrepreneurial class; the multiplication of political, commercial and social links of Russia with the rest of the world, and the increasing activity of foreign companies in Russia.

The government, even with all that weighs it down, is still maintaining the momentum of its program of economic reform and pursuing necessary change. As you probably know, President Yeltsin recently admitted that the government had made some mistakes in reform policy which had brought unnecessary hardship to people and industries.

However, he stressed that he envisaged corrective measures which would not betray reform, which is expected to stay on track, if at a somewhat slower pace.

I should stress one important thing in this context—apart from those circles in Russia who reject, outright, the very idea of private property, the clashes between the present government and the main opposition factions are not about whether or not to have a market economy, but how to achieve this aim by what means and at what price.

All these factors and, of course, the enormous natural resources of the country, its solid scientific and cultural base and its skilled workforce, provide really good ground for optimism about the future of Russia's economic performance. However, the difficulties that still lie ahead are daunting.

The government intends to continue its policy of price liberalization, including the gradual raising of energy prices to world levels. Unlike the first rounds of price hikes, this measure will hit enterprises much harder and, consequently, will substantially increase their pressure on the government for easing of fiscal and monetary policies.

Serious problems could also be posed by unemployment. Last year it increased by only one per cent. But the next stages of the reform process will have to address the problems of the labour force and industrial restructuring. In its turn, that will inevitably entail idle plants and increased unemployment with a corresponding rise in public discontent. These factors assign high priority to the task of creating an adequate and reliable safety net.

Another extremely important task is to correct structural deficiencies of the Russian economy. The government understands it must reform the economy in such a way so that the gap between demand and supply is bridged, not just by abrupt contraction of nominal purchasing power, but mainly by a vigorous expansion of output.

And here there is an extremely wide field of opportunity for foreign investors and foreign technologies.

We also need to rapidly acquire the proper legal framework to make our economy work much better. Essentially, this means assuring the sanctity of contracts—a clear, stable legal and regulatory regime; open government decision-making regarding business; and predictable and civilized rules on ownership of land, fixed assets and resources.

In addition, there is a clear necessity to institute and enforce a tax structure that permits producers, both domestic and foreign, to operate with the least possible burden so that commercial benefits for both sides are not unduly impeded.

Another daunting and politically sensitive task of the current stage of Russian economic reform lies in the sphere of privatization. Despite all the difficulties and obstacles, the government is pushing ahead with a bold and ambitious privatization program, intending to sell more state-owned factories, plants and other property in a month than Margaret Thatcher privatized in a decade.

This approach has become a matter of political controversy with some opposition factions alleging that the speed and scale of the privatization campaign are leading to economic chaos.

Nevertheless, transformation of a country of proletarians to a country of proprietors has already begun. To intensify this process the entire Russian population of 150 million people is being given a chance to become shareholders in the former state-owned enterprises. The distribution of privatization vouchers has been launched and will go through several stages.

By the end of this year, 6,500 large companies are expected to register as joint stock companies and begin offering shares in auctions to the public in exchange for both vouchers and cash. Auctions are due to begin December 1.

Foreigners are free to participate in the auction process alongside Russian citizens. Various restrictions apply to some enterprises in the defence and energy sectors.

As you can see, even this sketchy outline of urgent measures to be implemented in the current phase of our economic reform clearly shows that the scale of modernization still required by my country is staggering. At the same time, it represents an extremely wide window of opportunity, both for the citizens of Russia and business people from abroad.

It goes without saying that the fate of the reform will inevitably be determined mostly through domestic effort. Western assistance alone cannot solve the unprecedented economic problems that Russia is now facing. But by the same token, my country stands a much better chance of solving these problems with adequate levels of outside help.

I hope you would agree with me that, for the world at large, reforming Russia is the most important economic challenge since the reconstruction of post-war Western Europe. However, despite the geopolitical imperative of preserving stability of what is, and will remain, a nuclear superpower, the scale of Western assistance to my country still looks less than generous and far-sighted. Let me expand on this because it is important.

The current Russian crisis is so unique that remedies to it cannot be found in traditional textbooks. Nor is it about underdevelopment and impoverishment, although few would deny visible signs of both everywhere.

Russia is currently undergoing a deep and acute identity crisis which touches the very fundamentals of our society. In view of this basic fact, many prescriptions emanating from certain international financial institutions on how to reform the ailing giant look a bit too simplistic and superficial.

First of all, with respect to the speed of our economic reform, one shouldn't forget that it took centuries to develop Western market economies. Further, it appears that quite a few of those prescriptions are based on the efficiency of

Korean, Taiwanese and other Dragons' economic models whose relevance for Russia is yet to be proven.

Even if it is so, one shouldn't ignore strong non-market elements such as subsidies and protectionist tariff barriers, which contributed to growth in Korea and Taiwan. In this context one can dispute the wisdom of a scheme which envisages our rapid and forced landing into a classic strait-jacket of Western economic policies, which at the moment are not fully suitable for Russia's unprecedented situation.

Similarly, macroeconomic stabilization shouldn't be made a condition for Western assistance. In my opinion, it should rather be viewed as its expected consequence. Obviously, external assistance without strings attached can only be found in the perfect world of fairy tales. However, such strings as are necessary should be realistic and specify attainable targets.

By waiting until the Russian economy demonstrates its ability to succeed, the West increases the chances that the crisis may go deeper and be longer with all sorts of negative results. I believe it is in the vital interest of the West to act more decisively.

Ladies and gentlemen, official relations between Russia and Canada were established 50 years ago. Looking back, one can only regret how precious little was actually achieved in the field of our bilateral economic interaction and how many chances were missed.

Today, with the end of the Cold War and old bloc divisions and rivalries, we stand a real chance of making up for the time lost. Putting aside our mutual fight against the Nazi threat during the Second World War, Russia and Canada at last find themselves on the same side of a barricade for the first time since the inception of our bilateral relations.

And this comradeship doesn't stem only from our striking geographic and climatic similarities, and our close proximity. Post-Cold War Russia and Canada are now united by the same values and aspirations, by the high degree of coincidence of interests, unimaginable just a few years ago.

There is every reason to speak of an emerging spirit of genuine partnership between our countries as vividly demonstrated this year by two visits of President Yeltsin to Canada and by the Treaty on Concord and Co-operation between Russia and Canada which was signed in June and has just been ratified by the Parliament of the Russian Federation.

And this is very important since unanimity is indeed a very rare phenomenon in our Parliament and reflects what the broadest cross-section of Russians really think of Canada and of our relations with your country.

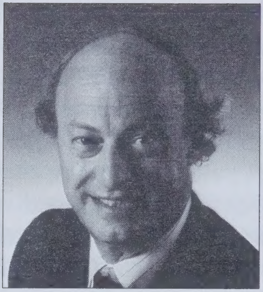
Russian-Canadian political relations—and they are in very good shape now—should be complemented and further reinforced by the widest possible, mutually beneficial, economic relations. No one would argue that foreign investments in Russia do not involve some risk. But the risks pale when measured against potential gains, both for Canadian companies doing business in Russia and for Canada.

Suffice it to mention, that the Cold War against a hostile government with nuclear weapons was costing Canada alone $3 billion annually in defence expenditures.

As you know, our bilateral trade relations have seen many ups and downs. Presently, we witness a definite upturn in economic interaction between our two countries. Russia is a land of tremendous and still largely untapped opportunities, practically in every sphere of Russian economic life. It is the economy of an awakening giant and those who would be the first to explore this burgeoning market can reasonably expect to reap the biggest gains.

In conclusion, I would like to stress that this upturn in Russian-Canadian relations has all the prerequisites to make us not only good neighbors but genuine partners—partners in opportunity and partners in the economic success that flows from free and fair co-operation at all levels.

The appreciation of the meeting was expressed by John Freyseng, Partner, Blaney, McMurtry, Stapells, and Third Vice President, The Empire Club of Canada.



November 3, 1992

Martin Goldfarb

Chairman and CEO, Goldfarb Corporation

WHY THE REPUBLICANS WILL LOSE

Chairman: **Robert L. Brooks**
President, The Empire Club of Canada

Introduction

Over the weekend I was thinking about what an outstanding fall season we've had for armchair competitors of all kinds.

Just the other day I was listening to the radio when I heard someone say: "I'm absolutely confident in my heart of hearts that we will win."

I didn't know if it was Brian Mulroney on the referendum, Bobby Cox on the World Series, Ross Perot on the U.S. Presidential race or Marty Goldfarb on David Peterson's election timing.

But in all fairness to our guest, if I'd seen those kinds of numbers going in, I would have advised that election call, too. Nineteen times out of 20, anyway, plus or minus three per cent.

Martin Goldfarb began his polling career while still a teacher in Metro Toronto in 1966. Building on degrees in anthropology and sociology, he was something of a pioneer in the field in Canada. In less than 10 years he rose to prominence as key pollster to the Liberal Party of Canada, a role he continues to play.

His company now has offices in Toronto, Montreal, Ottawa, New York and Hamburg, employing over 100 social scientists. Along the way he diversified into the muffler business—something to do with a poll that said everybody wanted to feel like a somebody. Over and above his business commitments, he finds time to be involved with organizations such as the Canadian Council of Christians and Jews, the Toronto Symphony Orchestra and York University.

Last week the CNN-U.S.A. Today poll had Clinton leading by two; ABC had him by seven; the L. A. Times gave him 10, and Harry's New York Bar in Paris awarded a landslide. You might be interested to know that Harry's has the longest and best track record of the bunch. Today, Mr. Goldfarb is going to tell us who's really right.

Please join me in welcoming our guest, Mr. Martin Goldfarb.

Martin Goldfarb

Why do I think Bush is going to lose? There are a couple of reasons, but one stands out more than any other—the Republicans have lost touch with the reality of how women function in society. Women are going to vote against Bush for a whole bunch of reasons.

What is fascinating is that losing the female vote was not an easy thing to do when you understand the anxieties women have about Clinton and about change; that is, financial change. Let's look at a few principles:

Women are building a new equality and a new social order that is on the verge of replacing the old order based on male domination and the exercise of power. Women, for the first time, are developing critical mass in the work world, developing independent assets and independent wealth. Since wealth generation is our religion, nothing will stand in the way of an idea whose time has come.

In today's world, women are creating more wealth opportunities than men. We cannot go back to a world that was slower, where women stayed home and had children and were really unprepared to function financially, independent of male approval.

Women have changed. The structure of our society has changed. The domestic agenda has changed and it is this domestic agenda that the Republicans do not understand.

Education, abortion, environment, day care—what we once considered to be women's issues—are now everybody's issues. The Republicans and the president, on all of these issues, have demonstrated that they are out to lunch.

Clarence Thomas and Anita Hill radicalized women in the United States like never before. The hearings, the manner in which Anita Hill was cross-examined by a group of male senators, and the approval of Thomas to a position on the Supreme Court, have convinced women that political involvement is key if they are to have influence on legislation that directly affects them, such as the pro-choice position on the abortion issue.

Women are beginning to understand that the only way to achieve equality in law is involvement in the political process. In real terms, the ultimate objective is equal opportunity in salaries and equal opportunity in management positions. It does not happen voluntarily. It is only through the political process that they now believe it can happen.

Women dominate the electorate. They are 54 per cent of the voting population, and there is a desire to support other women. Anti-incumbent sentiment is running high, and in Texas and California, women are making significant political headway. Clarence Thomas, Anita Hill, and the male Senate panel did more to convince women to get involved in politics and defeat Bush and other Republicans than any other single event.

The convention is a close second. Women's issues have become political issues, and women will now vote to defend their expectations on these issues. The abortion issue is important, but it is not the only one. The abortion issue galvanizes emotion and women will not support the Republican anti-choice stand.

Let me spend a few moments on the power of this marketplace.

Women lead in establishing small- to mid-size businesses. Together, their purchasing power is greater than that of Fortune 500 companies. The number of employees of women-owned businesses will surpass the number of employees of Fortune 500 companies. More than one-half of the accountants graduating last year were women, and 40 per cent of law school and medical school graduates were women.

In 1986, there were 400,000 women who were millionaires. In 1990, there were 10 million women earning over $30,000 and 2.1 million earning over $50,000.

Twenty-nine per cent of U.S. households are single-parent households, headed by women. In 1990, there were 10 million single parents. One child in four is raised in a single household. Sixty per cent of black children are raised in single-parent households headed by women.

Children are not going out of style. In 1989, 100,000 children were born to unwed, college-educated mothers between the ages of 30 and 34. This is not the conception of young teenagers who do not know what they are doing. There is a change. Many women want children, but they do not want the burden or restriction of a husband.

Clinton has a 15 per cent advantage among female voters, and these voters are key in states like California, New York, Illinois and Michigan. It is likely that the Democrats will carry all of these states.

The marketplace has changed for women. They are pursuing independent careers, and they are pursuing independent behaviour.

The Republican Party attempted to turn the clock back in a way that perpetuated the dream of male dominance which, in reality, does not exist any more. The Republican Party said to women and other groups that if their behaviour would be acceptable as defined by the likes of Robinson and Buchanan, they might get into their club. In real terms, there was an exclusive group who decided who could become members and everyone else would be considered pariahs.

Significant Republican women are not campaigning for the Republicans. Many felt rejected and had no place to go in terms of the lifestyle issues that affect their daily lives except to the Democrats, and some to Ross Perot.

The media are not the enemy. An attack on the media is an attack on freedom. Certainly we all have examples of when a writer or a person in the media has been unfair, but the media are not homogeneous. They present a diverse multitude of points of view. In newspapers, editorials say one thing, while columnists say the opposite.

The media are fundamental to freedom. They are the cutting edge of honesty. On occasion, the people send the media a message indicating that their interests are not being reflected. This is what happened in the Canadian Referendum.

The political elite, the business elite, and the media elite were all out of touch with average Canadians who clearly understand the kind of Canada they are not prepared to live with.

We live under a representative government in Canada. So do the citizens of the United States. We elect people to represent us. We do not elect them to be smarter than us, to have privileges that we do not have and to act and live in an elite manner.

This is part of the basis for the revolt against political incumbents in the United States. The assumption of elite status by representatives is what the public despises and will not tolerate any longer. This is no different than Canada.

Bush made a strategic error in using the media as the enemy. A few will cheer, but most will be leery about attacking a fundamental foundation to freedom. If there is one thing Americans are committed to, it is individual rights and freedom. To them, the Constitution is the religion of the United States. Freedom is paramount and the media are fundamental to that freedom.

How can you consciously, in a culture such as that in the United States, decide to take on the entertainment industry? It happens to be the most successful American export. It is the reference for so many to emulate. It is the mirror of the evolving lifestyle and value system. It is the intellectual property of future generations.

There are four fundamentals for the failure of George Bush. The first is the attack on the media; the second is the attack on the entertainment industry; the third is the treatment of women as second-class citizens; and the fourth is the practice of the politics of exclusion at the Republican Convention.

The Republican Party turned inward and many women saw it as elitist, exclusive, and out of touch with their daily needs. As a result, they have galvanized to vote against it.

Thank you for your attention.

The appreciation of the meeting was expressed by The Hon. Barnett Danson, Consultant, and an Honorary Director, The Empire Club of Canada.

November 12, 1992

The Hon. Barbara McDougall

Secretary of State for External Affairs

CANADA'S WORLD ROLE

Chairman: **Robert L. Brooks**
President, The Empire Club of Canada

Introduction

The Chinese have a saying: "May you live in interesting times." Apparently, it's not so much a saying as a curse. But it's one that most Canadians can usually ignore, with the occasional exception.

I think it would be easy to argue that these are indeed interesting times. But for most of us, the problems of the world are very remote. It is far easier to change the channel from Prime Time News to Murphy Brown than to contemplate the fate of a Sarajevo or Somalia.

Our guest speaker today, however, does not have the luxury of using a TV remote control to tune out the world's problems. Every day, she has to try and decide not just how one person can make a difference, but how a whole country can.

Barbara McDougall is Canada's Secretary of State for External Affairs. Born in Toronto, she graduated from the University of Toronto in 1963 with an honours BA in political science and economics.

She moved out west where she worked as a business reporter for the Vancouver Sun and then as an analyst with Odlum Brown. In 1976, she returned to join the then prestigious brokerage firm A. E. Ames, where she also became the company's first female vice-president. Since then, Ms. McDougall's career has moved steadily forward. The same cannot be said for the now defunct brokerage company.

Politics was more of a hobby than anything else throughout most of this period. But having spent a great deal of her childhood studying tap-dancing, it eventually became the obvious career choice. Certainly, it has proven the right one.

Since she was first elected to represent Toronto's St. Paul riding, Ms. McDougall has held many key cabinet positions including Minister of State (Finance), Minister for the Status of Women, and Minister of Employment and Immigration, and, most recently, Minister of External Affairs.

Talking about the new world as an "order" may be something of a contradiction in terms. Just how much so is what we look forward to learning over the next few minutes.

Ms. McDougall will be addressing major foreign policy challenges in the 90s. This is something she is well qualified to discuss. Almost immediately after taking office she was faced with the Al Mashat affair, followed shortly by an attempted coup in the U.S.S.R.—interesting times indeed. And, for good or for bad, she has been cursed with interesting times ever since.

Ladies and gentlemen please join me in welcoming Barbara McDougall.

Barbara McDougall

This final decade of our century is already marked by extraordinary change and turmoil. We entered the 1990s on a wave of optimism as the Cold War ended and the Berlin Wall crumbled. The 12 members of the European Economic Community (EEC) were marching lock step towards political union, thereby eliminating, perhaps forever, the possibility of a European war.

The most comprehensive assault on trade barriers ever, and the first to include developing countries—the Uruguay Round under the GATT—was "this close" to a conclusion.

Today, a scant two years later, as chaos erupts in that great expanse of geography that once was the Soviet Union, our optimism is at home with a severe autumn cold.

Yugoslavia and Somalia present us daily with what have been termed serial horrors, screaming at us of the failure of governments and institutions to end the torment of tribal hatred. The "12" as members of the EEC clubbily refer to themselves, have reverted to the traditional squabbling which has marked their relationships for centuries.

And, as the result of a related, long-building spat between the United States and France, the Uruguay Round appears headed for the shredder, dooming the developing world to the economic margin and raising the spectre of an even longer and deeper global recession.

As a foreign minister participating in a daily battle to build the kind of global stability which will allow Canada and other countries to flourish, I sometimes feel the way the Atlanta Braves must have felt when they left Toronto last month: "Just wait till next year!"

There are some people who still believe that if we each look after our own little corner of the world, our own little plot of ground, we can all survive and life will go on at its historic, predictable pace. Undoubtedly, this theory holds true for small numbers of people living under glass somewhere near the South Pole.

For the rest of us, the interdependence of the world is now a given.

Our prosperity, as Canadians, depends on our capacity to trade, to invest in our own and other countries, to welcome here the investment of others. These in turn, are tied by a Gordian knot to events and attitudes on the other side of the world.

Canadians—indeed no one—can escape the major forces currently at play in the real world:

- Unrestrained nationalism, rising xenophobia and racism;
- Numerous actual or potential ethnic hostilities;
- Countries with underdeveloped democratic values and institutions, with only limited recognition and respect for the rule of law;
- Thousands of weapons—conventional, nuclear, chemical—often under less than rigorous control

either in terms of storage and maintenance or in terms of sales and exports;
- Decades of environmental abuse and neglect—in places, almost total devastation of rivers, soil, forests and air;
- Underpinning it all, large deficits in many countries, economic frailty and underdevelopment in others, rising unemployment and growing economic disparities;

Any or all of these forces can lead potentially to uncontrollable mass migration of people to other parts of the world in search of a better future. In short, there is a spectrum of flashpoints looking for a spark, flashpoints which have already set off the rapid deterioration of our world in this decade, flashpoints which can set off a chain reaction implicating immediately the entire world.

We already see that social, economic, political, and environmental linkages are so inclusive that no country can set itself outside the agenda of daily world events. And if problems are so inclusive, then solutions can only be found in new forms of co-operative, or inclusive action, to protect global stability, basic ideals and individual well-being.

Co-operative action and inclusive solutions, therefore, call for a rethinking of such fundamental principles as the concept of national sovereignty.

Many of the sources of tension and conflict in the world are found in human rights abuses, persecution of minorities, or political repression, which often lead to, or are compounded by, economic deprivation. Historically, these are intrinsically internal matters; but they are now legitimate concerns of the global community. Indeed, they must become a shared responsibility

Sovereignty can no longer be absolute or exclusive. The world is too complex for this kind of absolute. In Cambodia, for example, sovereignty and key elements of governance are now temporarily separated, as we, as part of a UN force, precariously seek a solution to the unspeakable atrocities of the past.

Another fundamental principle which presents difficulties in the current environment is the inviolate nature of national boundaries. Physical boundaries, many of them recent or imposed by colonial powers, in themselves generate internal conflict, as we have seen in many parts of Africa, and of course, in the former Yugoslavia.

If there is ever to be lasting stability in the world, we must cling to the principle that borders cannot be changed by force, but we must accept that change can be brought about peacefully. Today we lack the guidelines of principle and precedent, and also the international machinery, to re-establish lines on maps except with considerable difficulty.

With an ever-broadening international agenda replete with new risks, shifting powers, and opportunities in surprising places, Canada has established its own vision of the route we must take as we peer into the haze surrounding the potential for international stability and prosperity.

We have made a firm commitment to four underlying principles based on values which we believe should be universal:

- First, the promotion and protection of basic individual human rights;
- Second, the development of democratic values and institutions;
- Third, the establishment of "good governance," in other words, responsible decision-making by governments, supported by responsive systems of public administration; and
- Fourth, the breaking down of trade barriers to broaden the world's basis for prosperity.

Bound up in these four principles is the intention to promote a way of life in other countries which not only mirrors our own fundamental values here in Canada, but also is the basis of future prosperity here and in other countries. It is our contention that these elements are essential for peace and self-sufficiency.

Some may question the imposition of our own Western ideology, our own particular social and economic structures, and our political and judicial practices on societies that do not share our intellectual traditions, our historical experience or our economic achievements.

It is not our intention to impose a universal model on all countries. We recognize that the process is evolutionary and incremental. Nor would we suggest that our own form of parliamentary democracy is the universal answer.

But the demonstrated failure of the Soviet and other ideologies leads us more than ever to the conclusion that the human rights, democratic values and free markets that we and others have developed over decades, and even centuries, should be encouraged—even urged—on those peoples of the world whose systems have failed them.

To achieve our objectives, we have redoubled our resolve to support and use international organizations more effectively. The United Nations, freed from the suffocating vetoes of the Cold War, is in the process of being revitalized, and is the centre of our focus.

This in itself is not a new direction in Canadian foreign policy. Multilateralism has been a long-standing Canadian mantra.

What is new is the growing willingness of other countries to use multilateral institutions and, consequently, their effectiveness is enhanced. This is perhaps the greatest single change in the global environment. There have always been conflicts and insecurity, there has always been interdependence; but not until recently has there been such a strong global willingness to take action on such a range of issues through multilateral institutions.

The potential for this international political will is far from being realized, as any quick glance at CNN will make clear. But it opens up enormous possibilities for dealing with problems and resolving conflicts through the United Nations and a myriad other organizations.

The UN remains the heart of the global political system and the focal point for conflict management. The Secretary General's recent Agenda for Peace, the first comprehensive review of UN objectives virtually since its founding, points the way forward for the UN—preventive diplomacy, peacemaking, peacekeeping, peacebuilding.

It is an ambitious agenda. But one which very much reflects Canada's view of the future.

The Secretary General suggests, and we agree, that the international community needs to become more active and interventionist in both preventing and resolving conflict. He also points out the need to be realistic about the extent to which the UN system itself can support the growing number of demands being placed on its conflict management resources.

For example, between 1945 and 1987 there were 13 peacekeeping operations established. Since 1987, 13 additional peacekeeping operations have already been established. The UN system cannot maintain this level of commitment if its members do not pay their dues or contribute their resources to UN-sanctioned actions.

There are many countries which can and must live up to their UN obligations. One of the first issues I intend to raise with the new U.S. administration is the question of UN dues. We have called on other countries—as has the Secretary General—to provide their share of troops for international peacekeeping.

At the moment, Canada, which ranks 33rd in the world in terms of population, is providing 10 per cent of UN peacekeepers worldwide: some 4,300 out of 45,000. Canadians are strongly committed to, and rightly proud of, our leadership in peacekeeping, but the growing role we envisage for peacekeeping calls for broader participation from others.

Emphasis on the United Nations does not exclude the strengthening of regional organizations. Indeed, the Secretary-General, with our support, believes regional organizations can enhance the work of the UN.

The London Conference process on the former Yugoslavia demonstrates the role regional organizations can play. If there is, indeed, any hope for an early and peaceful solution in this troubled region, it will be the result of these negotiations, initiated co-operatively by the European Community and the UN. Similar partnerships could be developed to deal with other areas of hostility.

Canada is uniquely placed to advance this approach as a member of a number of key regional bodies: the Conference on Security and Co-operation in Europe (CSCE), the Commonwealth, la Francophonie, the Organization of American States (OAS), and as a dialogue partner in the Association of South-East Asia Nations (ASEAN).

Whatever the forum, the same consistent themes must be addressed: democratization, respect for human rights, good governance, peaceful settlement of disputes, and open markets.

Peaceful settlement also requires progress on limiting the means for conflict. In the last year we have seen significant reductions in the nuclear and conventional military capacities of the U.S.A., the former Soviet Union and the other major European powers. The U.S.A., France and Russia have declared moratoria on nuclear testing.

Canada is strongly pursuing the comprehensive non-proliferation agenda laid out by the Prime Minister last year. First and foremost we must work towards achieving universal accession to the Nuclear Non-proliferation Treaty (NPT) and its indefinite extension when the Treaty expires in 1995.

Through multilateral action, chemical weapons have been banned following 20 years of painstaking negotiations. Progress is being made towards better control of biological and toxic weapons.

Finally, let me turn to our commitment to the expansion of Canadian trading opportunities. There is a strong link between democratic development and market reforms in other countries and our own economic prosperity.

Let me illustrate. Three years ago, Canada joined the Organization of American States and has been politically active throughout this hemisphere as a member of this organization. The move towards democracy with some setbacks—in virtually all of its member states—has been mirrored by strong economic growth in the region, and strong growth in Canada's commercial links with these countries.

For example, our exports to Argentina have increased by 79 per cent in the first eight months of 1992; by 22 per cent to Brazil; 21.5 per cent in the Central American countries; by 96 per cent to Colombia; and by 108 per cent to Mexico. I don't have to remind you that this growth means jobs for Canadians.

To the extent that political instability were to threaten democracy in these countries, it would threaten a strong source of growth for Canadian jobs.

In other areas, Canadian firms have made significant moves into the emerging markets in the countries of the former Soviet Union and in Central and Eastern Europe. Once again, our continuing efforts to promote stability will provide major benefits to Canada.

One in every four jobs in Canada is trade-related, and every $1 billion in new exports generates 15,000 new jobs. The importance of creating stable markets around the world and eliminating trade barriers among those markets, leads to direct benefits here in this country and in this city.

That's why we remain committed to free trade with the U.S., the North American Free Trade Agreement, and a successful conclusion to the GATT Round.

There is no question that a trade war between the U.S. and Europe would be a devastating setback to the prospects for GATT and hence to world prosperity. The effects would be felt very quickly by everyone in this room.

Canada is well-positioned not only to survive but to excel in this new world of the 1990s. With the lowest rate of inflation among the G-7 countries, with declining unit labour costs, improving productivity growth, and favourable monetary conditions, all the economic fundamentals are right for Canada to succeed in a competitive world.

We will dedicate ourselves vigorously to ensure that those advantages, in place because of the policies of this government and the hard work and sacrifice of many Canadians, are not wiped out by the kind of economic brinkmanship that has surfaced in the past few weeks.

This trade tension is not a sideshow, but it is also not how I want to end my remarks to you today. I began by describing the international turbulence in which we find ourselves, and went on to point out that there are better prospects because of the new global commitment to multilateral solutions, democracy and market reform.

You, as well as I, can see these things happening and feel their impact. History is taking place on CNN as I speak; commercial markets are determining the wealth of nations and their citizens as we eat our lunch.

In a world where history not only takes place on our television screens, but always seems to take place on fast-forward, foreign policy is no longer a remote preoccupation of a special elite—it is much more personal and direct.

What happens in Kiev and Sarajevo and Mogadishu and Hong Kong and the West Bank affects a11 Canadians. It affects our family life and our children's attitudes towards other races and cultures. It affects our children's view of their place in the world. It affects our livelihoods and, most important, it tests our values.

In this kind of world, perseverance and consistency in defending our values and in expanding our horizons is more important than ever. Canada is not an economic or military superpower, but on issues of significance—peacekeeping, arms control, aid to the former Soviet Union, the environment, revitalizing the UN, opening up trade opportunities—I can assure you, not only does Canada play its part, it frequently leads the way.

The sweep of history in this decade, the last of the century, needs our resources as individuals and as a country if our prospects are to be realized. I want to assure you that your foreign minister, your prime minister, your country, will not watch history go by, but will shape it, for all our sakes.

The appreciation of the meeting was expressed by Tony van Straubenzee, President, van Straubenzee Consulting, and a Past President, The Empire Club of Canada.

November 19, 1992

George E. Harvey

President and CEO, Unitel Communications Inc.

THE EMPOWERED CUSTOMER

Chairman: **Robert L. Brooks**
President, The Empire Club of Canada

Introduction

We all get that long-distance feeling from time to time. And, up until now, when it came time to choose the phone company we'd use, we had only one choice.

But last June, the CRTC decided to open competition for long-distance telephone service. Unitel Communications, a joint-venture between Canadian Pacific and Rogers Communications, had won a long and arduous battle to offer savings of between 15 and 35 per cent to long-distance customers.

George Harvey, a native of the U.K., brought his expertise in the computer and telecommunications industries to Unitel when he was appointed its President and CEO in 1987. He began his career in the U.K. in 1961 as a sales representative with Burroughs Corporation and, by 1979, he had risen to become President of Burroughs Canada. In 1982, Mr. Harvey became President of Rolm Canada and, in 1986, was promoted to Vice-President Worldwide Marketing at Rolm's headquarters in California.

Mr. Harvey also holds a number of directorships, including the National Museum of Science and Technology, and the Information Technology Association of Canada.

But it was back in 1961, however, that he really got his big break. On military service in Hamburg, he wound up spending Easter Weekend at a local hot spot known as the Star Club. He couldn't help but notice that the band, an English group called The Quarrymen, hailed from his native Liverpool.

After chatting them up between sets, they invited him on stage. As he belted out a popular English bar song with John, Paul and George, he could hardly have guessed that they would later change their name to the Beatles. He didn't stick around for the transition, but a line from one of their songs could have presaged his own career: "When I call you up, your line's engaged." (from the song You Won't See Me)

Now, riding high on the success of his company's bid for open competition, he can speak from experience about the "empowered customer."

Ladies and gentlemen please join me in welcoming George Harvey.

George Harvey

Thank you, Mr. Chairman and members of The Empire Club for your invitation to address this distinguished audience. It gives me the opportunity to talk to you about a subject close to my heart: the new customer revolution. As is the case with most revolutions, the new era often starts with uncertainty, confusion, and turmoil. The new customer revolution is no exception.

We are going through the most difficult recession since the Great Depression. The legacy of the recession is thousands of bankruptcies, millions of unemployed, and shattered consumer confidence. Uncertainty is everywhere. Even Japan, the land of lifetime employment, has hit the doldrums. A few weeks ago, *Forbes* dedicated its 75th anniversary issue to one topic: Why Do We Feel So Bad?

In times of uncertainty, we look for answers. If there are no answers, we look for signs of hope. If there are no signs of hope we look for the elusive quick fix.

In the past few years we were exposed to more theories on how we should run our businesses than ever before. Many of these theories were genuinely entertaining, the better ones were just plain old common sense. But as the recession deepened, people looked for the quickest fix possible.

The "new" theories didn't help much, so doom and gloom prevailed. New words were coined: double-dip recession, triple-dip recession. Downsizing became rightsizing. Voluntary dismemberment—whatever that means—became an option. People have used vision—the noun—so much it became a verb meaning to expect, as in "we vision great things to come." A lot has changed since the start of the recession.

Businesses in Canada and around the world realized that this recession is more than just another downturn cycle that could be taken care of by quick fixes or fine tuning of our industries. We are witnessing a complete restructuring of our economy.

The longevity and scope of the recession forced us to re-examine how we do business, how we plan for tomorrow, how we design and market our products and services, how we treat our employees and serve our customers. We know instinctively that if we don't pay attention to these factors, somebody will do it for us. And that somebody could be your competitor from the other side of town or from the other side of the globe.

This was the first recession in history that has actually intensified competition. But, while businesses and national economies are adjusting to the new reality of global competition, the greatest transformation is happening to the customer.

And that's what I want to talk to you about today: the new customer revolution and the changes we have to make to succeed in the new, restructured economy.

Customers have moved from being faceless elements of market share to a powerful force that can pick and choose as they please. Let me give you an example of the first wave of the trend.

Let's look at one fascinating example reported in the *Washington Post*. The National Bicycle Industrial Company in

Kokubu, Japan, builds made-to-order bicycles on an assembly line. The bicycles, fitted to *each customer's measurements*, are delivered within two weeks of the order—and the company offers 11,231,862 variations on its models, at prices only 10 per cent higher than ready-made models.

What we see here is the rise of the empowered customer. This new customer, aided by enormous advances in computers and telecommunications, is changing not only the way business deals with customers but the way we structure our organizations.

Traditional organizational models we are using today may become as outdated as the black rotary dial phones of yesterday. The reason is not hard to figure out. The old organizational structures were essentially designed as one way streets—goods and services flowed to the customer because customers had almost no impact on products until they picked them off the shelf.

The new organizational structure will be designed around serving the empowered customer. Research and development, marketing, sales, human resources—each and every department's design may have to be turned upside down; some departments may be eliminated for good. In fact, the most enlightened businesses have the customer at the top of their organizational charts.

The Japanese bicycle company couldn't have fit 11,231,862 variations on its models around bureaucratic systems in manufacturing and marketing, or without sophisticated computers and telecommunications. All of these elements had to be focused on creating the perfect, one-of-a-kind product for the one-of-a-kind customer.

A critical element in meeting new customers' expectations is recognizing and responding to higher levels of sophistication and their ability to recognize and choose value. If you talk to your friends who are buying personal computers these days, they talk about 486 processors, fax modems and megabytes of memory or disc drives. They will shop until they find the best price-performance and service value on the market.

Unitel's success in launching its first competitive long-distance service was based on customers' preference for low-price, high-quality service—for the same reason people join the Price Club or go to discount stores.

We didn't decide what our customers should get by holding long meetings, or talking to ourselves. We probed, researched, and held many focus groups until we were sure that the services we were going to offer would meet the wide range of expectations of our potential customers. We were confident of our initial success because our research and focus groups included thousands of potential customers.

There is no doubt in my mind that the new customer revolution could not have come without the new technologies based on the microchip. The microchip became the greatest catalyst of change and a curse for those companies who saw the microchip as an exclusive preserve of high-tech businesses.

The fact is, ladies and gentlemen, there are no longer high-tech and non-high-tech companies. Regardless of sector or industry, all successful companies are high-tech companies. Nobody can market a product or service for the empowered customer successfully without computers and telecommunications.

Let me give you an example of what you can do with a simple 1-800 number. Each of our ads, run in daily newspapers and on television, had a different 1-800 number so we could determine how successful each advertisement was on a daily basis. The system gave us vital intelligence on demographics of our customers and helped us keep our costs down.

Having a low cost structure is also critical to long-term success. But a low cost structure alone is not going to keep you in business. The empowered customer's decision is based not only on low price but also quality, features and service. Quality of your product and service is what wins you customers and keeps them coming back. Features your customers want will differentiate your product or service in their eyes.

Technology alone is not a panacea either. If your people cannot win your customers' trust and serve them well, there is no supercomputer on the face of the earth that can compensate for lousy service.

Most of the successful companies that have truly recognized the arrival of the empowered customer had to embark on culture change. We found this more challenging than, for instance, taking on Bell Canada. We have been focusing on culture change for four years. And even though we have made significant progress, we have not yet completed the task.

Companies that have managed their culture change and improved their balance sheet are rare. One of the greatest turnarounds and culture change on record must be British Airways. The company went from being the Airline of the Last Resort to the Business Carrier of Preference. As it happened, BA not only won back its customers but became the most profitable airline among the largest carriers in the world.

I can tell you from my own experience at Unitel that changing culture takes more than training your workforce on how to interact with your customers. That would be about as useful as limiting your car maintenance to cleaning your windshield. We had to rethink our organization and eliminate levels and levels of management, reorganize our organization into customer service groups, take engineers out of marketing and hire marketers who understood the needs of our customers and prospects.

The questions we had to ask over and over were these: Why should I, as a customer, go to Unitel rather than to the telephone company? What makes our service different? What could we offer our customer that he or she can't get across the street?

And pretty soon we discovered that, when you are facing a powerful competitor, creating a market is easier than taking a market share. New, innovative products grab your customer's attention faster than expensive ads and marketing programs targeted at existing markets.

A couple of weeks ago, management guru Tom Peters told his audience in Toronto that grocery stores added 16,143 new products last year alone and a consumer could choose from 41 varieties of Tylenol.

"The marketplace has gone crazy."

"If the marketplace has gone crazy," he asked, "does it not follow the organization must be as crazy as the marketplace?"

I'm not sure I agree with his conclusion—it's like suggesting that doctors and wardens have to go crazy before they are allowed to run a mental asylum. But Tom Peters was right on the money about the unbelievable choice available to customers today.

This unbelievable customer choice could be viewed as a disadvantage by many companies because choice means that there are more competitors in the market today than ever before. Twenty years ago, IBM had 20 competitors. Today it has 250 times more.

Regis McKenna, who helped Apple break into the business computer market, points out that companies have to adjust their marketing to the new customer: 90 per cent of people that use computers today were not using one in 1980. The new customers don't know about the old rules, the old understandings, the old ways of doing business—and, more important, they don't care.

To get closer to the customer, we've sent Unitel executives right to the front line. One executive, who is in charge of our long-distance team, spent a day answering calls in our marketing centre. Other executives spent time on the road with our technicians, visiting customers, getting first-hand information about their needs.

A similar program is underway at McDonald's, called Founder's Day. On that day the company closes down its offices and everybody goes to serve customers in honour of Ray Kroc, the founder of McDonald's.

For the same reasons, businesses are turning their org charts 180 degrees, with the customer on the top. The empowered customer is reshaping today's corporation. The process is often painful. Managers, especially the traditional middle-level managers—find it impossible to change from the hierarchical to a team-oriented, flexible and responsive structure.

The problems with adjusting to the new reality often go deeper than middle management. The Western culture has glorified individual contribution. We are more susceptible to looking for and rewarding a hero than a team.

Many times we learn the hard way. When Marlboro put up its well-known billboard with a lonely cowboy in Hong Kong, the advertising campaign backfired. Why? Because nobody could understand what this lonely guy was doing up there by himself in a culture that valued collective achievement.

Today, we are focusing to a much greater degree on team rewards because it makes our company far more effective in introducing new services faster than the telephone companies.

The manager as a lonesome cowboy is a dying breed. We found out that the empowered employee is more effective, more productive and more reliable than the old-fashioned clock-punching employee supervised every step of the way. In fact, only the empowered employee can respond to the empowered customer and create value for both.

The influence of the empowered customer goes beyond reshaping our businesses. Empowered consumers drove the change over to more environmentally friendly products and processes. But let's take another example close to where I live.

I credit customers—business and residential—for winning the battle for competition in long-distance. Organizations that you may not expect to be on the same side of any issue—such as the Consumer Association of Canada, the Canadian

Federation of Independent Business, CBTA and many others—went to considerable effort and expense to organize, hire lawyers and economists, and attend regional CRTC hearings and the central hearing in Hull to tell our policy makers that monopolies are no longer in their interest.

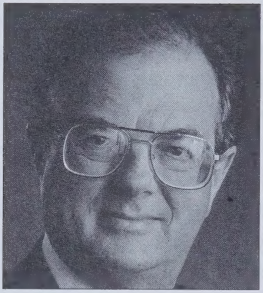
This may have been the first time in this country when the empowered customer won a decisive victory, defeating monopolies by changing the policy. So long-distance competition is further proof of just how much clout empowered customers really have.

Ladies and gentlemen, the new customer revolution has been in the making for years. The revolution shifted our focus from marketshare to customer, from rigid, hierarchical structures to a flexible and more human workplace. Those businesses that listen to their customers and act in the customers' interests are going to win.

There is no more powerful combination than the empowered customer served by the empowered employee. In fact, you will find it extremely difficult to capture that empowered customer's business without empowering your employees.

Thank you.

The appreciation of the meeting was expressed by Douglas Todgham, President and CEO, icomm, and a Director, The Empire Club of Canada.



December 3, 1992

John MacNaughton

President and CEO, Spar Aerospace Limited

STRATEGIC ALLIANCES: THE KEY TO CANADIAN COMPETITIVENESS IN THE COMING DECADES

Chairman: **Robert L. Brooks**
President, The Empire Club of Canada

Introduction

When the world thinks of Canada, what comes to mind? More often than not, we are identified by symbols which have come from our country's great wilderness—the hewers of wood and drawers of water. Or by climate: the winter; the winter; the winter.

But if there is any company that has contributed to changing that image it would be Spar Aerospace. The change began with Spar's Canadarm. First created for NASA's space shuttle, it fast became a symbol of national pride, and one that is recognized the world over.

Here was something that showed what Canada was really about—ingenuity. It should not be surprising, however, that Canadians should prove adept at creating something so technically advanced to function in a truly hostile environment. That is a Canadian tradition. We do it most winter mornings, just getting our cars started! We should be proud of the Canadarm because it is uniquely Canadian. No one has been able to duplicate its technology to date. Not the Europeans, not the Japanese, and not the Americans.

The Canadarm introduced Canada to a new era. It marked the beginning of a real effort to become the best in a very high-tech field. Today, Canada's aerospace companies are competing with the world at the forefront of the international space industry.

That success can honestly be attributed to the aggressive role that Spar has played in developing the industry in Canada, a role that was evident in the most recent space shuttle mission. Spar's space vision system was installed on the space shuttle, Columbia, to allow the Canadarm to perform at unprecedented levels of precision.

Today's guest speaker, Mr. John MacNaughton, has played a significant part in Canada's growth as a leader in aerospace and space engineering. Growing up in Western Canada—Big Sky Country—it is understandable that he would become an aeronautical engineer.

His first job in Canada was with DeHavilland's guided missile division. In 1962 he became the chief mechanical engineer of the company's special projects and applied research division.

When DeHavilland's Spar division became Spar Aerospace in 1968, John beamed over. Since then he has been directly involved in all of Canada's satellite projects, including the Alouette, Anik, and Hermes series. And he was instrumental in establishing Spar's remote manipulation division.

In 1989, John was appointed President and CEO of Spar. Throughout his career he has been recognized for his contributions to the field of aeronautical and space engineering.

To say that he is more than qualified to discuss the topic of re-establishing Canadian competitiveness in the 1990s is an understatement.

Ladies and gentlemen please join me in welcoming John MacNaughton.

John MacNaughton

This year baseball has given us some inspiring lessons about competition. Our World Champion Blue Jays won more than one game in the last few innings. And they worked hard for each victory.

Back in the 20s and 30s, the New York Yankees—with players like Babe Ruth and Lou Gehrig—showed the same fighting spirit. No wonder! The team was run by a Col. Jacob

Ruppert, who had the highest of aspirations. He used to say:

"My idea of a good ball game is one where the Yankees have a 13-run lead in the top of the ninth—with two outs and two strikes on the opposing hitter."

Ruppert didn't want the other teams to have a chance. And often they didn't.

Today Canadian business faces competition at least as tough. And—like Ruppert's Yankees—our competitors won't yield any innings, at least not gracefully. Nor should they.

The problem is that, as a country, we're doing worse than our Jays did. Much worse. We've got to find a new approach. One that strengthens our business team. One that gives Canadian companies the same advantages our competitors enjoy in other countries.

This afternoon, I'd like to discuss a new approach with you. If we want to flourish in the years ahead, if we want to hit the homeruns we need, if we want to be a winner in the field of global competition, then we must make a commitment to strategic alliances—strategic alliances that really bring together business, labour, education, and government.

This approach has been urged by several leading writers. And it makes sense to me because Spar and the Canadian space industry have had excellent experience with alliances. But before discussing solutions, let's examine the problem.

What are the challenges that we face in the world of the 90s and beyond?

At first glance, the answer might be: Why worry? Canada is a prosperous country. We have one of the highest standards of living in the world. And we have a strong set of social programs.

But a closer look at our economy makes clear that there is cause for concern. Serious concern. During the past decade, Canada had the lowest growth in productivity of any major industrial nation. Our unemployment rate, now in double digits, is higher than most of the G-7 nations.

Our federal and provincial debts are large and growing. Deficit financing has allowed us to preserve our social programs, but at what cost? Only at the cost of mortgaging our future. The federal debt in Canada is far higher, as a proportion of GDP, even than that of the United States.

Our trade deficit in finished goods is substantial. The imbalance is even greater in high technology—the very engine of economic growth in the 90s. And that, despite the success of companies like Northern Telecom, Bombardier, CAE Industries—and even Spar.

And most significantly, Canadians have not yet recognized or responded to the changed nature of their competition around the globe. Internationally, the most successful corporations have grown larger, stronger, more global, and more oriented towards long-term planning.

The unmistakable trend is toward fewer and larger. A study done at the Wharton School identified 136 industries—including aerospace and telecommunications—in which countries must compete globally to survive. The researchers predict a shakeout in each of these sectors before the year 2000. Only three to five key players will be left in each sector. Other firms will close their doors or scramble to find a niche.

This is the new world in which Canadian firms must compete. And the outcome of this contest is more important for Canada than for most countries. Twenty-five per cent of our national product is exported—a higher percentage than for any of the G-7 countries except Germany.

To compete successfully we must change the way we do business. And that brings me to solutions and strategic alliances.

The Japanese experience provides a useful starting point for a discussion of strategic alliances. Many of you are familiar with the concept of "Best Practices Companies." Companies that excel in an important area are targeted for comparison and they're closely studied. Well, for business organizations, Japan for the last few decades has been a "Best Practices" country. Sure, they've experienced some ups and downs, but there is much we can learn from the Japanese experience.

Let me get very specific. Big business in Japan is organized around keiretsu ["kay-rhet-sue"], which means a business alliance. Firms belonging to these keiretsu account for almost 80 per cent of the value of all shares listed on the Tokyo Stock Exchange.

These alliances are the basis for Japan's steady growth. They make possible long-term planning. And they allow groups of companies to target new fields, like consumer electronics, or more recently, computers.

A typical keiretsu may bring together a bank, an automobile firm, an electronics business and other enterprises. It's not a conglomerate. But it's more than a friendly association, or country club. The companies in these alliances own many of each other's shares. They purchase from each other where possible. They help finance each other's businesses. And the CEOs meet regularly to plan long-term strategies.

Canada can learn from the Japanese and their system of business alliances. Gone are the days when a Canadian firm can stand alone against international competition. In more and more industries, globalization has put a premium on co-operation among firms. And the magnitude of capital outlays makes long-term planning imperative.

Yet, too few Canadian companies are in a position to look very far ahead. The 1991 World Competitiveness Report ranked Canada only 14th out of 23 countries for long-term strategic decision-making. All this suggests that Canada must change, and it must change fast. I strongly believe that strategic alliances are key. Already there is movement in that direction. For example, at Spar.

We are an export-oriented company, a pygmy in a world of giants. For Spar, exports are 45 per cent of sales. When we sell our products, we compete against corporate giants whose sales are in the hundreds of billions of dollars. Spar's sales are less than $500 million. We compete not through size, but through ability and alliances.

For example, we joined the telephone companies across Canada to form Alouette Telecommunications. Alouette, in turn, purchased Telesat, which provides satellite-based services to Canadians. Our involvement in Telesat connects us with most of the big telecommunications players in Canada. These include Bell Canada, Teleglobe, and Stentor.

Together these companies form what some of us call a "strategic cluster"— a powerful industrial family providing a critical mass that allows us to be competitive in telecommunications worldwide.

In another strategic alliance, we work with MacDonald Dettwiler of Richmond, B.C., and with Comdev in Cambridge, Ontario. Our managements meet several times a year to coordinate joint activities. And, of course, our specialists are in constant contact.

Together, we're building Radarsat, the world's first operational earth sensing radar satellite. And together we've formed a company—Radarsat International—that will sell the information Radarsat produces to international markets.

I can assure you there will be more clusters. Spar was one of the first companies in Canada to form such alliances, and we intend to keep building them!

Spar's alliances go beyond the corporate sphere. Spar is also involved in co-operative research—through the Canadian Institute for Advanced Research for example. The Institute includes researchers at Spar as well as scholars at prominent universities such as McGill, the University of Toronto, and the University of British Columbia. The Institute funds pre-competitive research shared by several firms.

For Spar, all these linkages, partnerships, and consortia are really very important. They allow us to leverage our own relatively modest resources and to profit from the strengths of other organizations and groups. It's a win-win situation. Spar benefits. Other companies and universities benefit.

And Canada benefits from the jobs, training, and from the exports that our space industry generates.

Each industry is different, but the Japanese example—and our own aerospace industry—point in the same direction. The studies currently underway for the Ontario

Premier's Council for Economic Renewal also support these conclusions.

Solutions are never easy, but they can be clear. And this one is as clear to me as are the stars in outer space. A simple, straightforward solution for Canada is strategic clustering—strategic clusters which will allow us to build strength-upon-strength. Let me suggest four guidelines for creating strategic alliances in Canada.

Firstly, we should begin on a small scale. Some Canadian companies are already actively involved in alliances. But for many others such co-operation means entering uncharted territory. This journey of a thousand miles, to quote a Chinese proverb, should be made one step at a time.

The Japanese, after all, built their keiretsu on long-standing business ties— ties that went back to the late nineteenth century. Our tradition here has been more individualistic.

Lester Thurow's recent book, *Head to Head*, praises the co-operative capitalism of Japan and Germany, and criticizes the individualism of U.S. business. Canadians are even more reluctant to move toward co-operation. But, as never before, we must confront the cultural deterrents that have kept businesses in Canada from working together.

We Canadians are risk averse. We've built up a complex web of regulations that isolate companies, industries, and even the provinces from each other. And this regulatory net is confining us all, and frustrating the efforts of dynamic companies to grow beyond traditional boundaries.

As the Canadian writer, Hugh MacLennan, once said: "The trouble with this whole country is that it's divided up into little puddles with big fish in each of them."

Canadians need a new outlook to win in today's tough marketplace. But we cannot expect to change these deep-rooted values overnight. Hence alliances are best introduced around specific projects. The Premier's Council calls such groupings Innovative Business Enterprises. Each "cluster" could bring together several companies, government, universities, and a major financial institution.

All these Innovative Business Enterprises would build on areas where Canada already has great strengths, and where we can build even greater strength by broadening the scope of these enterprises.

Secondly, to help these alliances succeed, business must strengthen its ties with education. In countries like Japan and Germany, business and the schools work closely together—with splendid results.

Canada spends a higher percentage of its GDP on education than do these countries. But our results are very disappointing. We end up with a larger portion of students who drop out of school. And we have more students who graduate but are poorly trained for the workplace.

As Judith Maxwell, former head of the Economic Council of Canada, observed, business and education must be "partners in progress." Co-operative education, at the secondary and university level, should be expanded. Business must become more actively involved in curriculum and course design. In today's knowledge economy, well-trained, motivated individuals are absolutely crucial for success.

Thirdly, government must provide consistent, strong support for these business alliances. For many years we've stood by watching regulators keep companies from working together. Restrictions such as the Bank Act prevent strategic clusters from coalescing. Financial institutions are actively discouraged from ownership in other companies.

For example, banks, for many years, have been limited to holding no more than 10 per cent of the voting shares of other organizations. The same is largely true for insurance and trust companies. So the kind of co-operation that I'm looking for, the kind which will provide mutual benefits, is blocked. We must change the regulatory structure.

A new approach is needed. One that sees co-operation as a plus for all concerned—business, employees, and above all, Canada. Government should not be in the business of picking winners. But it can encourage broad, strategic directions that will create a climate in which winners can emerge and succeed. And it should support the forums that allow companies to share knowledge and plan together.

By the same token, governments should not undertake the research that needs to be done in Canada. But they should encourage links between business and universities. The Centres of Excellence and the business-university consortia that some provinces have established are a step in the right direction.

Fourthly, once in place, these alliances should be expanded in the direction of broader co-operation and long-term planning. It's unlikely that the Canadian model will closely resemble the one in Japan. Our geography, our smaller population, our particular set of federal-provincial ties, all suggest that only a made-in-Canada solution will suit us.

Indeed, different provinces and regions of Canada may develop their own approach to strategic alliances. Quebec Inc.—an alliance of business, labour, and government—demonstrates a different outlook than is evident in, say, Ontario.

But everywhere such alliances really should be strengthened. And they should move in the direction of increasing co-operation, greater sharing, more "patient" financing, and above all, long-term planning.

So to build these strategic clusters we must start off with small solutions, strengthen ties between business and education, get more positive support from governments, and gradually and steadily broaden these alliances.

To succeed, this concept must have the widest possible support. It must receive the backing of the leaders of government, of business, of labour, of education, and of the very communities where these alliances operate. This approach must span industries and sectors. It should be endorsed by those who direct our financial institutions and our knowledge industries. And it should be acclaimed by a public that has a broad understanding of the need for change.

Although I am anything but a visionary, I remember well the night the first Gemini manned spacecraft circled the earth. I was a young engineer immersed in the fledgling space industry. I was leaving work late one night and I looked up and saw a full moon.

I thought: "It's incredible, the things we have designed, touched, and agonized over are going there, they'll land there, and they'll become a monument to all of our efforts." I guess I am a romantic at heart.

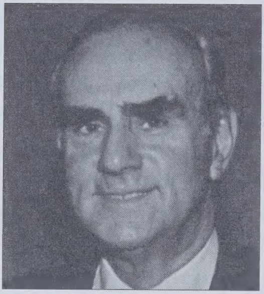
I believe deeply in a world beyond the one we all see in front of us. Inspired as I was, I vowed to continue as part of this industry that had taken us into uncharted territory. And what a privilege it has been!

The space industry here in Canada has set the stage for still another inspiring adventure. An adventure of a different kind, here on earth. Strategic clusters. I'd welcome the opportunity to work with others who share this vision. I hope others will come forth to join me. I'd like to see a group of committed individuals come together, map out a program, and break down the barriers that still prevent such co-operative efforts. I, for one, would commit myself to such an initiative. Such an initiative would be a really great step forward for our country.

I opened with baseball and a tale of the mighty Yankees of the 20s and 30s. Our Toronto Blue Jays started out as a wobbly expansion team. But of late they haven't had much difficulty handling those Yankees. I see a lesson there for Canadian business.

I have great confidence that we can compete effectively in the new global economic order. And I know that strategic alliances will be key to our success. Let's build strength-upon-strength. Let's work together. And let's create some winning teams.

The appreciation of the meeting was expressed by Robert Baugniet, President and CEO, Berger & Associates Canada Inc., and a Director, The Empire Club of Canada.



December 10, 1993

The Hon. Henry N. R. Jackman

Lieutenant Governor of Ontario

CHRISTMAS LUNCHEON

Seasons Greetings from the Lieutenant Governor
and
Special Performance by the Canadian Children's Opera Chorus

Chairman: **Robert L. Brooks**
President, The Empire Club of Canada

Introduction

Ladies and gentlemen, The Honourable Hal Jackman is Ontario's 25th Lieutenant-Governor since Confederation, and the 39th Lieutenant-Governor since John Graves Simcoe, the first Lieutenant-Governor, arrived 200 years ago in Upper Canada.

He was sworn into office on December 11, 1991. His Honour also served as President of The Empire Club for the 1971–1972 season and remains a very active Past President and strong supporter of this Club. Please join me in welcoming Ontario's Lieutenant-Governor, The Honourable Hal Jackman, who will address us.

Lieutenant Governor Jackman

Thank you very much Mr. President. It is a great privilege and a great pleasure for me to be here at the annual Empire Club

Christmas luncheon for a number of reasons. First, as your President has told you, I was President of The Empire Club for my year, which is now 20 years ago. I can appreciate the trauma you go through as you get up to this lectern every week.

I enjoyed my experience as President of this club and I always will have a very warm spot for The Empire Club and its extended family. Secondly, tomorrow, December 11, is my first anniversary as Lieutenant-Governor and, if I remember correctly, the first time I appeared in public as Lieutenant-Governor was at this lunch just a year ago. So that is an event I will always remember.

In this past year I have witnessed the wondrous joy of seeing this province. I recognize more so now after a year what a great honour it is to be the Queen's representative in and for the province of Ontario. I realize the responsibility it entails when I bring greetings to her loyal subjects here in this city and in every town and village in this province.

This is Christmas-time. It is a time when we think of those values that we associate with Christmas, and I think they are not too different really than the values we associate with membership in the British Commonwealth and the monarchy, to whom we owe so many of those traditions which have made Canada great.

One of those traditions, of course, is that our country provides the opportunity to achieve excellence. But that excellence in itself will ring hollow unless it is shared with those who are less fortunate. That is the spirit with which we approach the Christmas season and it is the spirit in which you are all here with us today.

I am delighted that the Canadian Children's Opera Chorus is going to be with us today. It is an organization of which I have been a patron for a long time. I have heard you many, many times singing alone, and with the Canadian Opera Company. Ladies and gentlemen, you are indeed going to receive a great treat.

So thank you very much ladies and gentlemen for allowing me to be here. I know I speak for all my predecessors when I say the Lieutenant-Governor always looks on this occasion with The Empire Club of Canada as one of the high points of the Christmas season. Thank you very much.

Robert Brooks

Ladies and gentlemen, the Canadian Children's Opera Chorus was founded in 1968. They have toured extensively in Canada and the United States to great acclaim and, in 1990, won the national award for outstanding choral record for the performance of Sir Chrisamus.

I understand that these young people do not come by their membership in this group easily. They must audition every year and the competition is tough. Singers can join the chorus at eight years of age and must leave by the time they are 16 or, in the case of boys, when their voices change, which explains why there are fewer boys than girls in the group you see.

We are privileged to have 45 of the 75 members of the chorus here with us today. These young people all share something in common—their love for music. We are indeed delighted that they could be with us and it is with great pleasure that I present to you, under the able direction of Mr. John Tuttle, the Canadian Children's Opera Chorus.

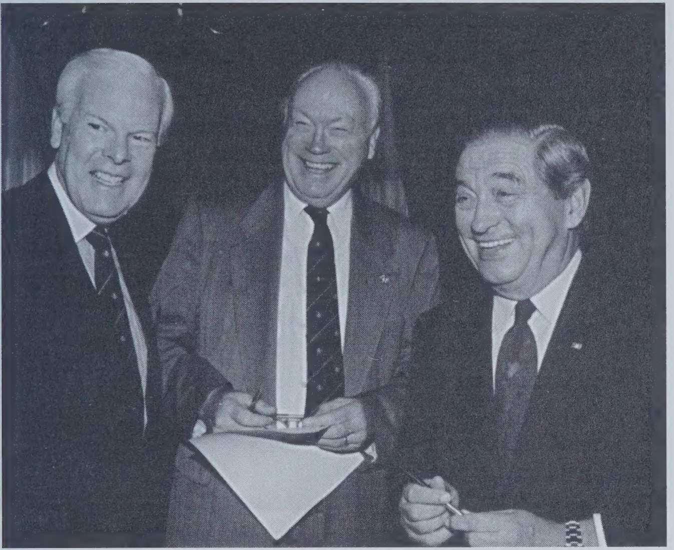
The Canadian Children's Opera Chorus gave a presentation. The appreciation of the meeting was expressed by Larry Stout, National Writer, CTV Television Network Ltd., and a Director, The Empire Club of Canada.

Club Director, Monty Larkin reaches for his wallet as he meets Provincial Treasurer, Floyd Laughren.

At a joint meeting of The Empire and Canadian Clubs, the Honourable Michael Wilson signs the guest book in the company of the President, and Isabel Bassett, President of The Canadian Club.

A comparison of two cities as David Perks, Publisher, Montreal Gazette, reflects with the Mayor of the City of Toronto, June Rowlands, and Club Director, Julie Hannaford.

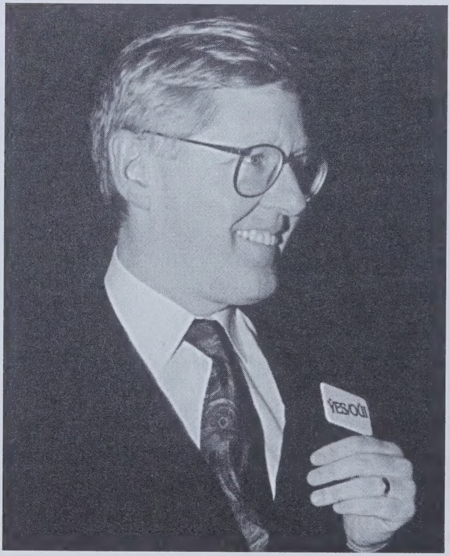
Dr. Bondar surrounded by a group of high school students.



Club Director, Tom Wells, and Secretary, Willis Blair, share a light moment with former Bundesbank President, Karl Otto Pohl.

Bill Mitchell, Partner, Price Waterhouse, and Sir Graham Day, Chairman, Cadbury Schweppes, PLC.

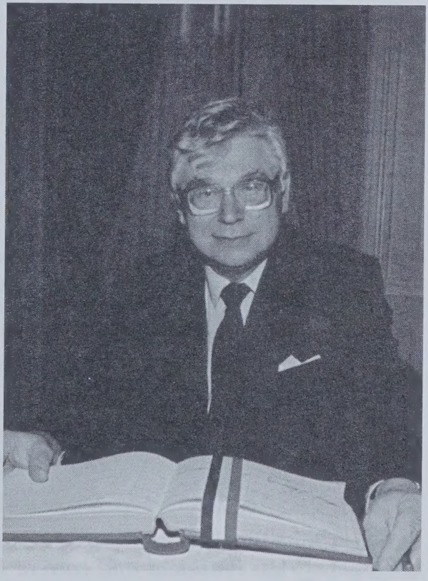
Marcia McClung, Club Director, with John Crispo, Prof. of Political Economy, Faculty of Management, University of Toronto.



Premier Rae passionately defends Canada's proposed new constitutional arrangement.

Some admirers of computer entrepreneur, Michael Dell, with Club Director, Blake Goldring.

Russian Ambassador, Alexander M. Belonogov.



From left to right:, Tom Wells, Club Director; Peter Hermant, Past President; Barbara Hall, Toronto City Counsellor; Michael Durkee, Consul General of the United States who substituted for the scheduled speaker, Ambassador Teeley; Gordon Steele, Club Archivist and Historian; Katie Hermant, Club Director.

Police Chief William McCormack with two generations of Jackmans; Past President and current Lieutenant Governor of Ontario, Henry N. R. Jackman, and Club Director, Duncan Jackman.

From left to right:
Patrick Gossage, Writer, Broadcaster and President of Media Profile; John Laschinger, President, John Laschinger Management Inc.; Margaret Scrivener, Club Director; the Rev. Charles Plaskett, Timothy Eaton Memorial Church; Stanley Goldfarb, Partner, Goldfarb, Shulman, Patel & Co.; Gordon Steele, Club's Archivist and Historian; Barney Danson, Honorary Director of the Club; Michael Marzolini, Chairman, Insight Canada Research; the President; Martin Goldfarb, Chairman & CEO, Goldfarb Corporation.

Speaker, John McNaughton signs the Guest Book in the company of the President.

Speaker, Michael Mackenzie with Diana Chant, the Club's Treasurer.

From left to right:
Al Day, Chief of ONYOTA'A:KA First Nation; Sonja Bata, Director, Bata Limited; Speaker, Dan Haggerty; Vickie Antone, Economic Development Officer, ONYOTA'A:KA First Nation.

From left to right:
Brenda Brooks, wife of the President; Tony Fell, President & CEO, RBC/Dominion Securities Inc.; Kay Worthington, Olympic gold medallist.

NOVA SCOTIA

Second Vice-President, Eric Jackman with Speaker, Brian Segal.

The President watches Past President, Reverend Canon Harold Roberts greet Alberta Premier, Ralph Klein.

A group of distinguished Liberals, former Cabinet Ministers, Ed Lumley, Alistair Gillespie and Honorary Club Director, Barney Danson with the current leader, Jean Chretien.

Denise Cole, National Secretary of the Progressive Conservative Party of Canada, sitting with Minister of Employment and Immigration, Bernard Valcourt.

Premier Wells of Newfoundland receives some bad news about reduced Federal transfer payments while the President looks on.

Anna Porter, Publisher, Key Porter Books and Club Past President, Sarah Band.

Hungarian Ambassador to Canada, Dr. Kalman Kulcsar discusses world affairs with the President and Club Director, Ed Badovinac.

Speaker, Janice Moyer, the President, and Brenda Erickson, President, SASS Institute (Canada) Inc.

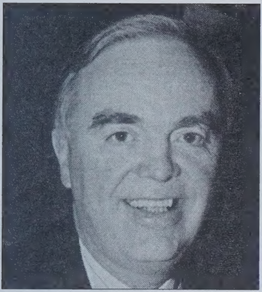
From left to right:
Ambassador, Zhang Yijun; Gareth Seltzer, Club Director; Richard Cheng, President, Four Rivers Industries Corp.; Tang Fuguan, Consul-General, The People's Republic of China.

From left to right:
Andrew McCaughey, Chairman, Scott's Hospitality; Paul Clark, Director, The Empire Club Foundation; Walter Frehner, Chairman, Swiss Bank Corporation.

Former Prime Minister, the Rt. Hon. John Turner deep in conversation with Maurice Strong, Chairman & CEO, Ontario Hydro.

Grade 13 student, Jordan Saules meets guest speaker, Robert Kearney, President & CEO, Bell Canada.

Dr. Clarence Crummey, Club Director for 40 years (deceased) with Gerry Meinzer, President of the Board of Trade of Metropolitan Toronto.



January 14, 1993

Daniel W. Haggerty

President and CEO,
Canadian Executive Service Organization

HELPING OTHERS, AT HOME AND ABROAD

Chairman: **Robert L. Brooks**
President, The Empire Club of Canada

Introduction

The Canadian Executive Service Organization, or CESO, celebrated its 25th anniversary last year. For those of you who don't know, it consists of retired or semi-retired executives who volunteer as consultants for short-term projects in Canada and developing countries. So far, CESO has sent more than 8,000 Canadians to work on over 27,000 projects in Native communities in Canada and 58 other countries.

VCs, as they're known, have helped with projects as varied as running a pig farm in Estonia to helping a convenience store owner on a reserve in Northern Saskatchewan. The volunteers receive no monetary compensation, except for travel and living expenses and some "walking around money." Signing up for repeated stints from China to Zimbabwe, the VCs hardly fit CESO's popular description as "the paunch corps."

Dan Haggerty, the current President and CEO of CESO, has had a distinguished career in marketing. He has held several senior management positions with major multinational corporations including Colgate Palmolive, Beecham, Libby McNeill Libby, and

Seagrams Ltd. Mr. Haggerty has lived in Hong Kong, Tokyo, Kuala Lumpur, and Malaysia and has travelled throughout Europe and the Americas. With his varied experience it's easy to see why CESO would benefit from his stewardship.

With the Canadian Bankers Association, Mr. Haggerty is helping the former Eastern Bloc countries restructure their banking systems. Two of my retired colleagues have risen to this challenge: Bob Macintosh, past president of the CBA, travelled to the Czech republic, and Ken Mitchell spent some time in Lithuania and Poland. Personally, I've been asked to consider Sarajevo, but unfortunately my commitments at the bank have prevented my accepting.

As a member of both the Advertising and Sales Executives Club of Montreal and the Association of Canadian Advertisers, Dan has always been a keen supporter of the exchange of ideas and the transfer of skills. And he is here today to offer his insights into the Canadian Executive Service Organization.

Please join me in welcoming our distinguished guest.

Dan Haggerty

Thank you, Mr. President. Honoured guests, ladies and gentlemen: It's an honour and a real pleasure to be with you today to talk about CESO, the Canadian Executive Service Organization.

You may not know much about us at this point, but I hope to be able to convince you during the next few minutes that we are one of the most effective and successful development organizations operating in the world today.

That's a pretty bold statement, so let me give you a bit of background on how we work and what we have achieved in our 26-year history. CESO is a unique and successful partnership of business and government. We're able to accomplish what neither of these sectors can do on its own.

Governments no longer have the financial resources to assist every community in need. Businesses, facing the challenges of recession and global competition, are often thinking only about how they can keep their own heads above water.

CESO has the special ability to link these two sectors. We combine the financial resources of governments and corporate contributors with the hands-on, practical experience of highly skilled Canadians who are prepared to offer their expertise as volunteers to help meet development needs here at home and abroad.

Whom do we help? Where are we making a difference?

Well, for example, CESO has worked with a breeder of boa constrictors in Colombia, a breakfast cereal manufacturer in India, a fibreglass factory in China, a commodities exchange in Lithuania and a native-owned sawmill in British Columbia, to name only a few.

In every case, CESO volunteers shared their skills in areas such as marketing, finance, engineering, resource management, human resource development and manufacturing with local enterprises.

Let me add that we have no political affiliations, here or elsewhere. We're a business-to-business development agency motivated by humanitarian, social and economic goals. Our mission is to help transfer business management and technical skills from Canadians who have them to individuals and communities which need them.

We're not a charity. We do not give away knowledge and skills to people and communities that are already well established. Throughout our history, we have demonstrated that providing the right expertise—to the right communities—at the right time—can make a world of difference.

Our work doesn't simply put money in a community's pocket. It stimulates local employment, fosters trade, and improves economic stability. Each of our projects is a building block in a community's infrastructure—whether it be agriculture, industry, finance or government. When a community's infrastructure is strengthened, the more important issues of social justice and quality of life can flourish.

So, CESO is not simply about business. It's about helping people in Canada and 59 countries around the world to live more productive and dignified lives.

CESO was founded in 1967, our Centennial Year, when the eyes of the world were focused on Canada. With the generous help of the External Aid Office—the forerunner of the

Canadian International Development Agency, or CIDA—we set out on our mission.

One of our founders, and still a dedicated CESO supporter today, is the Honourable Maurice Strong. Our first volunteer was Clifford Soward, who had just retired as president of Maple Leaf Mills. Clifford's project was in Tanzania, helping restructure its milling industry. Since those early days, more than 8,000 Volunteer Consultants have followed in Clifford's footsteps.

In the 26 years since 1967, we've completed more than 27,000 projects in over 100 countries. Last year alone, we did 2,200 projects, including 1,500 here in Canada with Aboriginal clients.

Today, we operate three development assistance programs.

The first is our overseas program. We currently operate in 49 countries in Africa, Asia, the Caribbean, and Central and South America, all with funding support from CIDA. The typical overseas project lasts between two and three months and is usually undertaken by a single Volunteer Consultant.

In 1969, we realized there was a need to help Aboriginal communities here in Canada. So, with the financial support of the Department of Indian Affairs and Northern Development, we launched the Canadian Native Program.

This program provides technical and management assistance to Aboriginal peoples across the country. The typical Aboriginal project is within commuting distance of the volunteer's home, and involves a day or two per week, perhaps over several months.

As a matter of interest, Viola Robinson (who, as you know, is a member of our board,) is convinced that CESO is really an Aboriginal concept. When the first Europeans arrived in North America, they faced a hostile environment and, had it not been for the welcome they received and the things they learned from the friendly Aboriginals who greeted them, they might not have been able to establish the roots that have led to the society we know today.

As a result, the Aboriginal meaning of the word CESO, according to Viola, is Can Europeans Survive Over here?

In 1990, we began our third program, in Central and Eastern Europe, with funding support from External Affairs through the Task Force on Central and Eastern Europe.

There is no precedent in history for "development" of the kind required in the 10 countries there in which we're working now: The Czech Republic and Slovakia, Estonia, Hungary, Kazakhstan, Latvia, Lithuania, Poland, Romania, Russia, and Ukraine.

The challenge is quite different from those in the Third World or here in Canada. Some of our volunteers are helping individuals on a one-to-one basis, as usual. But we have also been asked to advise governments as to which companies are worth privatizing, and which should be closed.

We have designed and delivered seminars to teach local bankers how to appraise companies being privatized and how to assess their needs for loans.

What we are being asked to do in Central and Eastern Europe is to help foster a quantum shift from the way people have been thinking and doing things for more than 50 years.

It's important to remember that these are sophisticated nations; they have vibrant cultures and traditions, and a high standard of education. Our volunteers are helping individuals change in very real ways within societies that are also changing dramatically. And, of course, all the relationships among those societies are also changing. And it's all happening extremely fast.

The dust, hopefully, will settle by the end of this decade, but in the meantime we at CESO are working harder than ever before. We support these three programs from our eight offices across Canada, which work closely with our Resident Representatives or agents in each of the other 59 countries in which we're active.

These statistics are impressive, but do you know what really makes a CESO project happen? A single Volunteer Consultant.

Today, there are 3,600 volunteers on our roster, which has to be one of the biggest resource banks of management and technical expertise in Canada. More than 100 of them work in our offices across this country, helping with fundraising, recruitment, project evaluations, volunteer briefings, and publicity.

All 3,600 Volunteer Consultants are available to undertake projects in the field. Over the course of a year, about 25 per cent of them are actively involved in projects in Canada and abroad.

They range in age from about 30 to 80, with the average age around 60. About 15 per cent are women, and we're working hard to increase this number. Almost 60 per cent of them are retired, while 18 per cent still work full-time and 24 per cent work part-time.

They are the type of people who have been active throughout their careers. In every case, they now have the time and desire to share their particular skills with others.

Typically, CESO volunteers have a successful track record in business, the professions or the public service. We draw upon their education and lifetime of practical experience, often in the most senior positions.

And their fitness and enthusiasm for life is quite remarkable. I know of one volunteer who is 75 years old and went to Costa Rica on a project last year. He was very cross when he found out we couldn't get a special deal from the airline to carry his windsurfer, but he took it along anyway.

Since many communities we help are less sophisticated in their business skills and experience, our volunteers' broad understanding of traditional business principles is particularly valuable.

Within the last year, our roster of volunteers has included such well-known business people as Grant Reuber, former vice-chairman of the Bank of Montreal; Bill Clark, former dean of Ryerson's Business School; and Laurie Blachford, former president of Manitoba Hydro, all lending their unique expertise to CESO and our clients.

CESO volunteers are not paid for their services. However, their airfare and local expenses are shared by CESO and the community they're working with.

I'll leave it to you to figure out how much our consultants' time is worth in the regular business world. But based on a very modest consulting rate of $350 per day, used by the United Nations, the value of CESO volunteer time in 1992 exceeded $8 million!

Let me take a moment now to share with you a few specifics about what CESO has accomplished recently through our three programs.

In the Canadian Native Program, we gave training workshops for directors of Aboriginal capital corporations, to help them better understand their roles and responsibilities. And we worked with a band on a long-term plan for a recreational complex. The general store, restaurants and campgrounds are already completed, and plans for bus tours and a rodeo are well under way.

You may know that 1993 is the *International Year of the World's Indigenous People*. CESO is very proud of our work with Canadian Aboriginal communities. This year, we're committed to expand our services further, particularly in the areas of entrepreneurship for women, and community management and administration.

Overseas, a CESO Volunteer Consultant spent six weeks helping a pharmaceutical company in the Philippines upgrade its facilities and improve production. And in Panama, we helped develop a pilot project to train people in ecologically-sound techniques of land use, forest preservation and reforestation, as well as farm management.

In Central Europe, three young engineers who had set up a company to manufacture residential intercom and security systems asked CESO for basic management training. We sent them that, and a lot more!

Our Volunteer Consultant also taught them things they didn't even know they needed, such as market research, product costing, sales forecasting, and inventory controls.

Before the three-month assignment was over, the company's productivity had increased by more than 50 per cent, and annual sales were on their way to being tripled.

Another area CESO is becoming increasingly involved with is sustainable development. To celebrate our 25th anniversary last year—and Maurice Strong's tremendous contribution to world environmental issues—we established the *Maurice Strong Trust for International Development.*

Funds from this trust will be used to support environmentally beneficial projects in Canada and abroad. This follows the establishment in 1990 of a trust honouring Sonja and Tom Bata—both long-time supporters of CESO. That trust is being used to support projects in countries where Bata operates, particularly projects benefiting women.

As you can see, there are lots of things going on at CESO, and it may seem that we have all the help we need. But, in fact, there is a great deal that each and every one of you in this room can do to advance the work of our organization. Let me quickly outline how you can help.

As a representative of a corporation, you can do several things. First, become a CESO Corporate Member. Today, more than 300 of Canada's leading companies are corporate members of CESO. For small businesses, the average contribution is $1,000, but larger companies donate proportionately more.

Besides its value as a charitable contribution, your CESO Corporate Membership keeps you informed about new business opportunities we identify in Canada and overseas. Here's one example of how a CESO project can produce tangible business spinoffs:

Four years ago, one of our volunteers helped a private hospital in Thailand improve its administrative efficiency. A few months later, one of its senior managers came to Canada for a "reverse" project organized by the volunteer.

Last month, when I was in Thailand, I learned that this same hospital is now planning a major expansion and intends to use all Canadian suppliers, from the architectural and engineering consultants to the medical equipment they will be purchasing. The hospital had such a good experience with Canadians that it wants to continue the relationship today. In total, this project could represent a $40 million opportunity for Canadian business. And it all started with a CESO volunteer!

The second thing you can do is sponsor a specific project. Companies can sponsor a project in Canada or overseas. You may choose your project's industry sector or select a specific geographic region. If a current or past employee is a CESO Volunteer, you may wish to sponsor his or her project.

One company that takes its CESO sponsorship very seriously is Husky Injection Molding Systems. CESO Volunteer Consultant Herb Rees, who is here with us today, provides an example of this.

Herb retired in 1979 as vice-president of engineering for Husky. He signed up with CESO in 1982. Since his first assignment for us, in 1985, he has completed 14 projects in the Far East and Latin America. The people at Husky were so impressed by what he was doing for CESO—and by the international relationships he has forged for them—that they have financed his last three projects.

Third, you can encourage employees about to retire to consider becoming CESO Volunteers. CESO not only provides a unique way for your people to contribute their expertise to society; it's a great transition between full-time work and retirement.

Those of you who are here as individuals, not as corporate leaders, can also help CESO. First, become a volunteer yourself. Besides the satisfaction of sharing your specific expertise with those in need, you'll be furthering Canada's strong international reputation. Or, you can help bridge the gap between business and Aboriginal peoples here at home by making your experience available through the Canadian Native Program.

Second, you can make a direct donation to CESO. You may not be able to make yourself available, but your taxdeductible donation can help someone else do so. Your contribution will be well-spent, since 90 per cent is applied directly to project costs. Funding from individuals like you and me is tremendously important in making our work possible.

I often say that the skills and experience of retired and semi-retired Canadians is one of the most under-utilized resources that Canada possesses. I hope in these remarks to you today that I've helped you also to appreciate this. There are not many organizations that give the same bang for the buck that CESO provides.

Because our experts are all volunteers, their cost-effectiveness is without question. The quality of advice they supply to our clients all around the world and here in Canada is as good as, and often better than, what is available from any other source. In the case of the overseas program, our Volunteer Consultants are great ambassadors for Canada—building bridges of understanding at the grass roots level that can benefit all of us in many unpredictable ways.

And last, but far from least, the CESO program is great for the volunteers themselves—men and women who have been active all their lives, active in their communities, active in their jobs, active in their schools and churches, active in their service clubs. Now that they are retired or semi-retired, they don't want to just sit back in their rockers on the front porch or play golf every day.

CESO provides a means for them to continue to do what they have been doing successfully throughout their lives, and to continue to contribute to society and to the world in a very meaningful way.

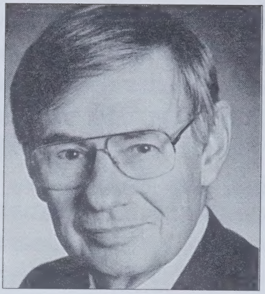
One comment I hear from our volunteers time and time again: "Canada has been so good to me, and now I want to give something back." And give they do!

I know that many of you here today are either supporters of CESO or associated with organizations that already support us, and I thank you for that support. Now, however, I hope those of you who don't yet support us will seriously consider doing so. And when you're ready to step down from whatever position you presently occupy, think about joining our roster of Volunteer Consultants.

With CESO, everybody wins.

Thank you very much.

The appreciation of the meeting was expressed by Mary Byers, Author and Historian, and a Director, The Empire Club of Canada.



January 21, 1993

Michael A. Mackenzie

Superintendent of Financial Institutions

CORPORATE GOVERNANCE: HOW TO SAY NO AND STILL GET LUNCH

Chairman: **Robert L. Brooks**
President, The Empire Club of Canada

Introduction

The Office of the Superintendent of Financial Institutions—or OSFI, as it is called—has been held by one man since its inception: Michael Mackenzie. When he accepted the position, he clearly outlined how he planned to approach his new job when he said: "I am a frustrated sermonizer, so watch out."

An appropriate response from a man that comes from a long line of Anglican preachers.

Since 1987, Mr. Mackenzie has had the unenviable task of keeping an eye on the country's financial industry. It's his job to keep our financial system safe and sound, a job that asks him to not only find any tempests in possible teapots, but to keep them there—quietly, if possible.

OSFI was created in response to the failure of two Alberta banks in 1985—Canadian Commercial and Northland. It brought under one roof the different regulatory offices that supervised the financial industry. Armed with new powers, a wealth of experience, and lots of ideas, Mr. Mackenzie leapt into the lion's den, only to discover that economic downturns, and more particularly, real estate collapses, can have very far-reaching effects.

Born and raised here in Toronto, Mr. Mackenzie has Bay Street in his blood. With a history degree from the University of Toronto in one hand, an MBA from Harvard and a CA designation, he embarked on an impressive 30-year career as an accounting partner with Clarkson Gordon, now Ernst & Young. There he worked as a member on a number of auditing, management, and accounting committees. From 1979 to 1986 he was the Chairman of the Banking Industry Committee. Also during that time, he served as a consultant to many private and public sector clients.

Today, he is sharing his views with us on corporate governance. Given his vast amount of experience in the private sector and his ongoing experience with OSFI, I can think of no one better qualified to address the topic.

Please join me in welcoming our distinguished guest.

Michael Mackenzie

Ladies and gentlemen, it is an honour for me to be invited back to The Empire Club after having spoken to you almost exactly five years ago. In preparation for today, I have reread my notes of January 28, 1988. At that time I started my talk with the following statement:

> The first lesson is that unhappy and costly events of the last several years in Canada and elsewhere underline the need for a much higher level of professionalism on the part of all those involved in the management and supervision of financial institutions than we have had. This professionalism must take as one of its key elements the fact that the owners, managers, auditors and advisers of deposit-taking institutions recognize fiduciary responsibilities that are different from those of normal commercial undertakings. All of us involved with these institutions share the task of assuring that these responsibilities are recognized and are being met.

This was a good statement then; it is a good statement that I make with much more fervour now. What I want to do today is give a report card to see how well we have applied this lesson. In summary, a lot of people learned it, some better than others, and some paid no attention.

I shall start off by updating the messages of 1988 with stress on the impact of changes since then and new lessons learned. I will then focus on what I see as the critical threat in the system and some key weaknesses in corporate governance processes related thereto—and make a number of suggestions for improvements. My conclusion will stress the increased standards of performance in institutional governance in the financial system focusing on the role of directors.

I believed then, and I believe now, that effective self-governance is the core element in ensuring safety and soundness in the system. But now the stakes and risks are higher, the demands are more rigorous and regulators are irritable and less patient.

I chose this theme today because I see a real credibility problem with the public at large, many of whose members—right across the political and social spectrum—believe that corporate governance systems don't work, and that people in command are not being held accountable for performance. I should also say that, from the perspective of politicians, of the press and various governmental circles, the degree of regulatory reliance on self-governance processes is under fire.

In 1988, I started with a review of the risks faced by financial institutions—risks that had to be managed well to ensure safety. I warned that time was running out for the economy. But pessimist though I was, and am, and although I thought then that real estate values were going to drop, I did not foresee the speed and depth of the deterioration that has taken place and is continuing.

Bad real estate assets are the main threat right now.

While, in 1988, we were cautioning people to limit loan-to-value ratios in their real estate lending practices, it was not until well into 1990 that we saw the extent to which actual incurred costs were being 100-per-cent financed by banks, trust companies or insurance companies; many loan evaluations were based on estimates of future value assuming inflation.

We did a real estate exposure survey in early 1990. That's when we saw the pervasiveness of loans, direct and indirect, to commercial real estate projects in the years 1986 to 1990.

This, of course, was a worldwide phenomenon. Banks and other institutions in the U.S., the U.K., France, Sweden, Japan and other countries were doing the same, and, in many cases, doing more than Canadian institutions were. And in these markets, values have fallen off dramatically, and the resulting damage to financial institutions has been serious.

There were, during the late 1980s, vast amounts of deposit money moving into the system and, in North America at least, a lot of this was protected by deposit insurance. There was spectacular growth in deferred annuities sold by life insurers, now mostly protected by The Life Insurance Compensation Corporation.

All the incentives in the system were leading to an emphasis on the growth of large pools of money for financing real estate and other large projects. There were also funds available for financial conglomerates for leveraged buyouts, takeovers and other kinds of investments that had the effect of converting equity into debt.

As I noted five years ago, we did not see comparable increases in financing new assets in the real economy—productive plant and equipment and goods-producing technology.

The issue for us is to understand first the seemingly irresistible lure of real estate for financial institutions. Second, what were the prudential controls exercised by management, boards of directors and owners over real estate-related loans and investments—and why did they fail to prevent large losses?

The subject of the powerful allure of commercial real estate as a major use of depositors' and policyholders' funds in the 1980s is too big for me to deal with today. Obviously it has seemed to be a relatively easy way to employ large blocks of money with low administrative costs, attractive fees and interest rates and, based on appraisals, apparently low risks. It became fashionable—the thing to do—and there was an element of irrationality about it. Many did not know where else to put the money.

Above all, I suspect, it was related to the strong bias for growth I have already mentioned.

Based on what we have seen, however, I do not believe that there were many well-articulated strategies that reflected a real understanding of the risks involved in real estate lending. Boards may, in many cases, have been inundated with documentation on these loans, but little of this dealt with what could happen if the inflationary assumptions about resale prices and rental rates did not pan out. Construction delays and cost overruns were common but, all too often, did not appear to have been factored into the loan financial analysis.

Put bluntly, in the culture dominated by the imperatives of growth, there isn't much room for the naysayer, for the person who says: "Hey, wait a minute! Do we really know what we're doing?

Have we really looked at all relevant facts? What happens if values go down, not up? Do we know what the risks really are?"

These questions are evidently overwhelmed by the power of the truism—"we either grow or die."

I have spent some time on this question of growth, real estate lending and related risk because of the current pervasiveness of real estate problems in financial institutions. There are virtually no institutions that are not wrestling with non-performing or sub-performing real estate assets on their books. This overhang is very serious.

First, the problems of working out these portfolios are so difficult and time-consuming that they affect the ability to handle other major risks, to say nothing of exploiting new opportunities. The interest and principal losses associated with a book of non-performing loans constitute an enormous drain on profitability, both currently and into the future.

Second, it has significantly reduced any interest the market may have had in acquiring or financing, directly or indirectly, any new real estate exposures. No one wants to take a risk and the rating agencies will punish those who do. This means that holdings are continuing to deteriorate.

It also means that there is now little or no interest in making an investment in any financial institution with significant non-performing or substandard real estate. From any point of view, this makes it extremely difficult to work out going-concern solutions for institutions in trouble.

Please don't take from this that I believe most Canadian institutions are in serious trouble. The fact is that most are handling their problems very well. But there is great pressure on everyone and many people are, with good governance, handling it well.

There are a number of other important risks, many of which I talked about in 1988. Other sectors—forest products, steel, mining, retailing, to name a few, are in difficulty. There continues to be an enormous buildup in the use of derivatives and related off-balance sheet exposures—and there is a concern that the risk management processes have not caught up.

There are what regulators call conglomerate risks, particularly where holding companies in the group borrow to finance their equity holdings. There are risks related to extensions of business powers under new legislation. There are large exposures to interest rate, foreign-exchange rate and other forms of market risk. There are risks related to systems and settlements. There is publicity and ratings risk. And so on.

Underlying all this is the intensity of competition in financial services in a poor economic climate—and there are more players than the market requires.

Risks have, without question, increased and multiplied.

What does all this mean for corporate governance—and what is the regulator doing about it?

Most important, in my view, the standards of self-governance performance—the required levels of competence and professionalism—have increased. I listened to an American quality management guru say the other day: "In the 1990s the good will fail."

This is a deeply disturbing statement. If it is true, and I increasingly and unhappily believe it is, it has profound implications for management, directors, auditors, actuaries, lawyers, investment houses and regulators.

To be blunt, a grade B or even B+ may not be good enough; A or even A+ is required.

To illustrate the approaches we take to governance issues, I will use the CAMEL acronym used by our Office in our examinations. In this acronym, C is for capital; A is for asset quality; M is for management and operations quality; E is for earning power; L is for liquidity.

Capital

As regulators we have learned that the maintenance of adequate levels of quality capital is critical to the safety of depositors and policyholders. It is important, only in part, because it provides a cushion to absorb losses and represents a substantial financial commitment by owners. Most important, it imposes discipline on the management of the enterprise.

As many of you know, regulatory minimum capital standards are in place for banks, trust and loan companies and P&C insurers. The trust company standards are being revised. There are rules in final draft form now out for life insurers. As regulators, we pay a lot of attention to capital and regard any failure to meet these standards as indicative of serious trouble leading to regulatory intervention.

We look to directors of regulated institutions, therefore, to accept responsibility for maintaining a stock of good quality capital in excess of minimum standards, and for ensuring that the shareholders are able and willing to inject more capital if needed or a widely-held institution maintains a position in the market enabling it to raise more capital if needed.

Directors should ensure that there is a sound capital management plan in place on a consolidated and non-consolidated basis that is frequently reviewed and adjusted as needed. Growth strategies should be consistent with the size of the required capital base and access to new capital.

Directors must be satisfied that dividends are not declared when doing so increases risk to depositors or policyholders. They need to be particularly careful if parent companies have funded their capital investments by short- and medium-term borrowings or commercial paper.

They also need to be extremely cautious if the institution is heavily dependent on depositor or policyholder funds that can be withdrawn quickly. This means that they must, from time to time, be prepared to act independently of—or even contrary to—what shareholders are asking for. Not easy—and it may be unfriendly.

And, of course, both directors and auditors must ensure that the accounting measurement of equity capital is very conservative. As I said in 1988, accounting errors of only five per cent of total assets can wipe out the capital base.

Asset Quality

Directors should understand that poor asset quality is the key and constant element in institutional failure. It is very important that they and the auditors keep a constant eye on the asset-risk management controls employed by management, including a strong focus on how assets are put on the books in the first place. Directors should be satisfied that their own attitudes to risk are reflected in the quality and nature of assets acquired and the integrity of the borrowers.

Both directors and auditors need to be assured that bad news isn't hidden and problem assets are identified early and accounted for properly. Management should have the experience and skills to manage problem situations effectively to minimize losses. In a number of cases there has been a reluctance to do this.

I could go on and on about directors' responsibilities for asset quality. I will focus on a few specifics:

- Good lending and investment policies, including the kinds of borrowers and loans to avoid;
- Ensuring a wide spread or diversity of assets—lack of concentration;
- Potential losses in the off-balance sheet book;
- Unrealistic optimism as to the value of all assets—loans, investments, joint ventures, real estate, goodwill, deferred taxes; and
- Assets in which any related party or director had, or has, an interest must be legal and of the highest quality.

Management

Directors have a clear statutory responsibility for ensuring quality management—the governing acts, after all, state: "The directors shall manage the business and affairs of the company."

A great deal has been written about the relationship between the board and management, and I am not sure I have much wisdom to add. But the issue of the relationship between the CEO and board is important—who is boss? Does the CEO manage the board or does the board manage the CEO—and does it have to be one or the other?

However this works, the board has the overriding duty to see that management is not only good, but excellent, and that the management practices, including risk management, are first class—and constantly improving.

Some key factors that directors should ensure:

- Management focus on the interests of the institution itself as distinct from (I am not saying contrary to) the interests of the shareholders; and management compensation and other incentives should reflect this;

- Management acceptance of its responsibilities to depositors and policyholders—they are, after all, key to the survival of the institution;
- Individual accountabilities for poor performance, write-offs and losses;
- A management control culture that is tough, disciplined and pervasive through all levels up to the top;
- Excellent and efficient computer personnel and systems—this is very important;
- All the businesses conducted by the institution are encompassed by intelligence networks and information systems within management's experience and capacity;
- Management relations with the external lawyers, auditors and actuaries are open and professional, and that such professionals are not punished if they act in an independent and appropriate manner; at the same time directors should be satisfied with the quality of professional services being provided; and
- Management relations with the regulators are open and responsive. Directors should, through reading reports and direct contact, be assured that they understand the regulatory concerns and that they are being dealt with properly.

Earning Power

Satisfactory and sustainable profitability is the core ingredient in assuring safety and soundness. One of the problems in the system is that current profitability levels are unsatisfactory.

There are three components:

- A focused business where management knows the customers, understands their needs and provides services and products that meet these needs in the eyes of the customers;

- Low operating and funding costs. This involves good people working efficiently and state of the art systems; and
- Low levels of bad debts and other asset losses.

The directors' job is to ensure that they understand the business ingredients of sustainable profitability and keep management focused on the basics. The business strategies should be coherent and workable over a long term—immediate gains that cause medium- and long-term problems should be avoided.

The board also needs to caution management about the risks and rewards trade-offs—particularly nowadays when some companies seem to have a desperate need to generate profits quickly. This is particularly difficult when companies need to earn high returns to cover high costs of money.

Directors and auditors need to be sure that the accounting practices used by management are rigorous and conservative. In particular, optimistic asset valuations and revenue recognition policies cause trouble sooner or later. Of current concern to us is the accounting for derivatives and securitization transactions.

My office has put in place a number of procedures designed to assist both directors and auditors in ensuring sound accounting—and I think they are working well. We will continue to use our power to influence and, if necessary, to control accounting practices to ensure that earnings are soundly measured. We are against gimmicks.

Liquidity

This, in terms of measurement, is a more elusive matter. Liquidity consists of maintaining a stock of liquid assets and cash flows so that asset commitments are met, obligations are settled on due dates and operations continue so that no one has any doubts about the institution as a going concern.

Good liquidity practices are an essential component of maintaining confidence. They are clearly essential if, for whatever reason, there are marketplace concerns about safety. A solvent institution should be able to avoid liquidity funding crises—but only if it has good asset: liability or liquidity management practices, including, where necessary, contingency plans.

Directors need to pay some attention to the specifics of liquidity management and understand good practices. In particular, they should be satisfied as to the reasonableness of the forecasts involved—and liquidity management always involves using forecasts.

The Place of the Regulator

I have said earlier that our supervising programs are built on trying to ensure the kind of self-governance duties and practices I have described. This work brings us into repeated contact with management, directors, auditors and actuaries in aiding them to focus on safety issues and to be aggressive in developing and maintaining strong control cultures.

We monitor these processes. One of our key early warning signs of trouble is evidence that they are not working. In recent years, we have become much more unpleasant where we see breakdowns. Let me describe some of the problems we have encountered.

- We observe a general unwillingness by directors to accept our criticisms of management actions. If there is a perceived difference between the regulator and management, they seem to prefer to take management's side rather than look hard at the issue. They often do not insist on getting the kinds of information that management may be loathe to provide. I think this pressure is a function of the boardroom culture of Canada under which criticism of the issue is read as criticism of the person. One should not normally see close questioning of the CEO on his decisions as a vote of non-confidence in him personally, although this cannot be avoided if the situation is bad enough.

- I used to believe that a word to the wise was sufficient. I now know that not much happens unless people are hit on the head with bluntness. Any ambiguity of message from us will likely be manipulated in favour of not doing anything if it is disagreeable.
- Owners and directors have great difficulty believing bad news. It is akin to the medical-denial syndrome—"I have some symptoms but I'm not sick and don't need to see the doctor." Directors want good news and cheerful stories. In fact, I often have the impression that people smile at us, tell us what they think we want to hear and go on as before.
- Where the institution is closely held, we see little evidence that its outside directors, acting in the interests of the company itself, its depositors or policyholders, are able to stand up to the owners. In fact, the normal pattern is that the directors, even the outsiders, who are on the board of the institution are also on the board of the holding company. This is dangerous.
- More positively, in most situations we are familiar with, the institution itself has not become exposed through inappropriate related-party transactions. Boards have, with some exceptions, kept good control over these. We have, however, seen high-risk assets taken on in response to owners' pressure for more profits.
- The one common characteristic of every institutional failure in the last five years is a financially weak shareholder who could not add strength or value to the institution. These shareholders generally received steady—even unquestioned—support from both the banks and others who were financing them, from their legal advisers and their boards. There was also aggressive accounting—mainly related to goodwill—

at holding company levels. These holding companies are generally not regulated.

- Auditors have been slow to accept really rigorous accounting. This is getting better—but only when we write new rules. While I believe audit performance has generally improved in recent years, I have to tell you there is, in the regulatory and government circles in which I work, a high degree of scepticism about the capacity and independence of auditors. The new Chief Accountant of the SEC in Washington, a former auditor himself, is so sceptical of bank accounting and related audit work, that he is pushing hard to have all banks mark their balance sheets to market and to do this frequently.
- We have been disappointed in auditors' lack of understanding about credit risk management. They often do not address the vital issue of how loans are made in the first place.
- We have forged structural relationships with auditors and with the profession in order to enhance the capacity of auditors to be independent and to do better audits. We are also including consultations with them in developing accounting rules—which are getting steadily tougher. In the end, we probably cannot avoid pushing closer to mark to market accounting.

Let me try to put all this together. One can regard any failure of an institution as a function of market failure with bad assets, self-governance failure and regulatory failure.

My own view is that the combination of market failure and poor, or even only moderately competent, corporate governance gives me, the regulator, very little capacity to act so as to prevent the failure, even it we act quickly, although we can mitigate the damage. We do not—and cannot—manage the institution. We cannot take control of viable companies that meet their capital tests or even force changes of top management.

These are important issues. If one concludes that sound, even excellent, self-governance is not adequate to maintain the safety and soundness of institutions under pressure, and working with the regulatory procedures we now have, then the system is due for a lot more rules and regulations.

If the current view is that any failure is, first and foremost, a regulatory failure, it will mean that society does not believe corporate governance processes work. Such a view will lead to the increases in regulatory interventions that we are seeing in the U.S. The pressure for early intervention could lead to a system under which the regulators are required to seize the shares of companies that are still solvent but are in trouble. These interventions will become very intrusive and extremely costly.

There is a government and political view that more regulations, using very precise and arbitrary procedures, including seizure, will deal with the problem. I do not think that this is so—and U.S. evidence does not support it.

But unless we have corporate governance procedures that are excellent and credible, this is what could happen. We will do all we can to support the governance process. But if it is not recognized, as I said at the beginning, that the required levels of competence and attention have really increased in recent years, it won't work.

The appreciation of the meeting was expressed by Harry Seymour, President and CEO, Pathfinder Learning Systems Corp., and a Past President, The Empire Club of Canada.

January 28, 1993

Brian Segal

Publisher, *Maclean's* Magazine

THE MEDIA AND THE PROSPECT FOR LEADERSHIP

Chairman: **Frederic L. R. Jackman**
Second Vice-President, The Empire Club of Canada

Introduction

Many of you know that last year Dr. Brian Segal left the presidency of the University of Guelph, where he was known for his academic brilliance and administrative acumen, to become an unknown quantity in the world of magazine publishing—as Publisher of *Maclean's* Magazine. Many of you may have wondered why.

I did. This is a radical switch for a man who studied hard at McGill, at Ysehiva University in New York earning an MSW, and at Pittsburgh University, earning an MSc as well as a PhD degree specializing in public health.

He has lived his life in ivory towers, writing books and articles on social welfare, manpower planning and telecommunications. He took a break from academia by sitting on the boards of IBM, Union Gas, J. M. Schneider and the Sun Life Trust as well as chairing a variety of provincial and national commissions.

Here is an educated man, a doctor of philosophy who had spent years as a professor teaching students at Florida State, Carleton, Ryerson (where he was also president from 1980 to 1988) before reaching Guelph. He lived the good life in that quaint Germanic town of Guelph with his wife Bunny and their two sons and their daughter.

So, one might wonder why a person with such profound accomplishments in education would seemingly abandon the field for a career in publishing. Well, we all know that professors have to "publish or perish," but Dr. Segal, surely publishing *Maclean's* is not quite what your Board of Governors had in mind.

From 1988 to 1992, when he was president of Guelph, the best his university could do in the annual *Maclean's* overall ranking of Canadian universities was sixth. Not bad, but perhaps not good enough.

You will remember the uproar that shook both the academic community and *Maclean's* when it first published the ranking of Canada's universities in 1991. Almost every university president in Canada found reason to object. All feared, of course, that every prospective student would be banging at the doors of only the No. 1 institution. And so Dr. Segal, despite many years of trying to create academic excellence at Guelph, determined that—if he could only take over *Maclean's*—he could "cook" the ratings.

I share this now—so that when Guelph spurts to the top of the list in the 1993 survey of universities, one should not attribute the university's success to the retirement of Dr. Segal from the presidency of Guelph, but rather to his attainment of the position of Publisher of *Maclean's*.

There was another reason. Yes, it is true that Hugh Segal, who works in the Prime Minister's office, is Brian's younger brother. But there is probably little truth to the rumours that Hugh really wanted Brian to get control of Canada's most influential weekly magazine as preparation for the next federal election.

More seriously, though, I believe Dr. Segal's long-term interest in public health has led him to recognize the power of journalism to influence the public's attitude in positive and negative ways. People do learn from our media and our media do contribute to our public health.

Concerns about the quality of our media are evidenced almost daily. The growth of public cynicism toward Canadian leadership, particularly those holding public office, may, in part, be due to the influence of media coverage. Media abuse of people in public office—including royalty if you will—may discourage Canadians from stepping forward to provide the leadership the country needs.

Dr. Segal's interest in the media is broad. He has recently become a Governor of the Canadian Journalism Foundation, an organization founded in 1990 whose mission is to enhance the quality of Canadian journalism—in short, to create the best journalism in the world.

And so, we look forward to your address, The Media and the Prospect for Leadership. Ladies and gentlemen, would you please join me in welcoming Dr. Brian Segal.

Brian Segal

You have come out today for one of three reasons. The first is that you are a loyal member of The Empire Club and come to all lunches no matter who is speaking (and for that I am grateful). The second is that the topic appears stimulating and you pray that the speaker will be up to the challenge. The third is that you got the Segals mixed up and you thought today's talk on leadership meant a major political announcement.

I am going to talk for a few minutes about what I see as a major problem facing our country today. I'm not referring to the economy, or to the Constitution, although I think they're both important, and I'll make reference to each in my remarks.

The problem I'm talking about is the breakdown in public confidence in our nation's political, business, labour and media leadership. It is a profound rejection of elites accompanied by few hints as to what kind of leadership would be acceptable or desired by Canadians. What will it take for people to suspend their cynicism and develop trust in leaders?

What we are witnessing today isn't the healthy scepticism that people in a democracy should have concerning their leaders. It's a sour cynicism about our elites that, in my view, sadly alienates all too many of our citizens from participation in a creative debate about Canada's future.

What proof have we that Canadians have lost faith in their political leaders and their ability to understand and tackle our prime concerns? Let me give you a couple of examples from the *Maclean's*-CTV year-end poll.

Asked to choose their favourite political leader from a list of six, 30 per cent of those surveyed insisted on "none of the above," an option that was not even included on the questionnaire. Another 14 per cent chose U.S. president-elect Bill Clinton ahead of the Canadians on the list.

Taken just weeks after the referendum on our Constitution, the poll indicated that only five per cent of those surveyed thought that national unity or the Constitution is the most important problem facing the country. For that matter, none of the issues that have dominated our political landscape lately are of prime concern to our fellow Canadians. Not free trade, not the GST, not deficit reduction.

The issue that lies in the forefront of the respondents' minds, by nearly six times more than any other, is the economy and employment. But a full 73 per cent said that their faith in politicians to serve the public interest has decreased either significantly or somewhat in the last few years.

About twice as many respondents look to business to serve their economic interests than look to government. Now that may not be all bad, indeed, I expect many of you would like to see even more reliance on business, but it is yet another indication of alienation from the political process.

But the business elite is not held in the highest esteem, either. The sensational and massive recent failures may have something to do with it. But business executives were ranked in the poll as fourth out of seven professions for their honesty and integrity. Sadly, at least from my viewpoint, journalists ranked fifth, ahead of only lawyers and politicians. The erosion of public confidence is clearly widespread.

In its post-referendum issue, *Maclean's* called the outcome of the referendum campaign the most sweeping rebuff to elected politicians in the country's 125-year history. We also suggested that it indicated another heartfelt rejection: of such other perceived elites as business leaders, organized interest groups, and anyone asking for special treatment.

That's all very well and good, you may say, it's concrete proof of what we've sensed for some time, but what does all this have to do with the media? There is growing evidence that the anger, disgust and cynicism many express results from a sense of being unimportant in the processes of self-government.

People feel dislodged from the political debate by an inward-looking clique of professional politicians, lobbyists, special interests, journalists, and pundits. Much of the public affairs programming we see on TV involves journalists talking to journalists or pundits, and very little of journalists facilitating average Canadians to express their analysis of problems and their ideas about improvements that will work.

They also feel that these elites, who define what issues should matter to the rest of us, are out of touch with the common experiences, problems and aspirations of ordinary folks.

What people see is a closed loop of opinion shapers. These people choose what and who is important and then dramatize the issues and people selected. In the process they help suppress the robust debate we should all be having about our future.

There is no place in this elite daisy-chain for individual needs and aspirations to shape public opinion about what is important and what should be done. Opinion shapers have too often become controlling intermediaries between citizens, with their pressing needs, and the governing elite, with their political and special-interest agendas.

Recently we've seen some cracks in the walls the elites have built to insulate decision-makers from their constituents. A combination of collective exasperation and the application of new technology have hinted at the end of the pundits' era, both here and in the United States.

The referendum vote in Canada showed that, contrary to conventional wisdom, Canadians will take the time to study complex issues. And when they did: surprise! They found that a yes vote didn't give them what they wanted. They made up their own minds and registered votes that flew in the face of the expensive and near-universal urging of elites.

It wasn't the slick Yes ads that captured Canadians' feelings and shaped their attitudes. It was the rather primitive and folksy people-oriented ads that found resonance in their values and aspirations. They just weren't prepared to succumb to what they saw as manipulation.

In effect, they told the pundits and political elite that they were out to lunch. And I don't think they had in mind the kind of lunch we've had here today. In Jerry Brown's term, they wanted to take back their politics.

Jon Katz, in a recent article in *Rolling Stone*, skilfully analyzed a remarkable change in U.S. presidential politics: Ross Perot revolutionized the presidential campaign. He ignored the Washington press corps and went directly to the people.

By using the likes of Larry King Live and Donahue, Perot used commercial and cable talk shows to answer voters' questions directly. He gave millions of citizens the sense that they were an integral part of the election. He led tens of millions of viewers and, incidentally, the other candidates away from conventional media outlets.

Katz went on to say that by airing primitively produced half-hour spots that out-drew prime time network entertainment programs, Perot showed that slick and nasty advertising is not the most effective way to reach the electorate. No wonder that *Advertising Age*, the main trade magazine of the advertising industry in the U.S., chose Perot as Adman of the Year.

Perhaps the most striking thing about the U.S. election and our own referendum is how intent voters were in demonstrating their feelings about things that are important to their lives. It's a sad fact that Canadians don't think their political leaders share those feelings.

In commenting on the *Maclean's* poll, Allan Gregg said:

You get the sense that the political system is running for the political elite. And the reaction is: 'You don't understand what we're going through. You don't listen to us, and you don't seem to be prepared to do things on our behalf.' "

According to Gregg, the poll indicates that Canadians reject the recent radical conservative political philosophy that has been the hallmark of the past decade or so. But they also reject the view that governments, acting on their own, can solve long-standing social problems. He said:

"The political pendulum may be swinging back, but it isn't swinging back on exactly the same path."

Ross Laver's analysis of the *Maclean's*-CTV poll results is that many Canadians are troubled by the continuing erosion of the country's position in the global economy. As a result, they are looking to governments for practical and effective measures that would protect and improve their standard of living. He went on to say:

"But at the same time, they have little confidence that their political representatives are up to the challenge. Perhaps only when Canadians see evidence that their political leaders understand and empathize with their economic fears will they suspend their cynicism and distrust towards the political process."

It seems to me that there are two clear conclusions that can be drawn from the evidence. The first is that the political and governing elites need to behave differently and become more responsive to the needs and priorities of citizens. And they need to make this change apparent to the general public.

The second conclusion, and one of equal importance, is that Canadians need to become more self-reliant, more prepared to understand and handle facts, and more willing to face up to difficult realities. We also need to be more focussed on understanding the complexity of the issues that challenge our country.

Leadership cannot be restored from the top down. Bernard Shaw declared: "People are always blaming their circumstances for what they are. I don't believe in circumstances. The people who get on in this world are the people who look for the circumstances they want, and if they can't find them, make them."

The context for understanding what will be acceptable leadership rests with each individual. Our expectations become the platform for political promises. The more informed and realistic are our expectations for change, and the more prepared we are to face and overcome harsh realities, the more likely we are to nurture leadership that is forthright and trusting.

Daniel Bell described the dilemma for the modern democratic state "as not only having to provide for public needs but it has also become, inescapably, the arena for the fulfilment of private and group wants; and here inevitably, the demands cannot be matched by the revenues or by knowledge adequate to these demands."

If we expect our leaders to be capable of inspiring us to make the necessary reforms, we shall have to make clearer distinctions between self-interest and the public interest, and between individual and group wants. Indeed, we shall have to make a clearer distinction between our wants and our genuine needs. If we hope to secure leadership that acts in our best interests, we need to be much clearer and much more practical about just what our best interests are.

The *Maclean's*-CTV poll suggests that Canadians are coming to understand that there are real limits to what governments and other public institutions can be expected to achieve. According to Gregg:

"The notion that we have a problem so we need a new Crown corporation or more government doesn't cut it any more. Clinton taps into that when he says he's going to give people a hand up, not a handout."

We are overgoverned and can no longer afford it. As I see it, during the 90s the challenge for Canadians is to look closely into ourselves, and into our communities and the institutions that are close to us to define what it is we want to become, and what is absolutely essential to get us there.

It is our responsibility, working with our institutions, to find more effective and less costly solutions to our problems and to shape our expectations accordingly. If we demand billion-dollar solutions we'll get billion-dollar promises—whether affordable or not!

The challenge for the media is to provide a channel of direct communication between the people and the leadership, between viewer and ruler, between leader and reader. *Maclean's*, if I'm permitted a plug, did this effectively when we brought together a panel of average Canadians to work through a solution to the constitutional problem and let these folks talk to other Canadians about their concerns and solutions through the magazine.

The media must become more discerning and do a better job of uncovering the underlying truths behind issues. The proliferation of special interests has led to a parallel explosion in the number of skilled professionals whose job it is to attract media attention.

They understand how to make campaigns colourful and noisy and often receive lavish and uncritical media coverage on their claims, without analysis of how widespread the support for their cause is, whether their demands are truly needs or just wants, or who else in society would benefit or lose if their demands were implemented; reporting and commentary also should reflect the realities and constraints under which those expected to respond have to operate.

We can no longer rely on the closed loop of opinion makers to shape our destiny. We have shown a readiness to educate ourselves about complex issues and are more prepared than ever to face those issues free of polarization and political hyperbole. We are a proud and prosperous country.

We have faced many challenges and threats in our 125 years—we never backed away from overcoming adversity and we won't begin to do that now. The internal and external economic forces confronting Canada will result in a greater resolve to succeed. It is within this context that the next generation of leadership will emerge. And, as always, their integrity will be a reflection of ours.

Stay tuned—our beliefs about leadership will change—and you will see it all unfold in *Maclean's*. Thank you.

The appreciation of the meeting was expressed by John F. Bankes, President, Nova Bancorp Group, and a Past President, The Empire Club of Canada.

February 4, 1993

The Hon. Ralph Klein

Premier of Alberta

THE NEW ALBERTA: BUSINESS OPPORTUNITIES TOWARD 2000

Chairman: **Robert L. Brooks**
President, The Empire Club of Canada

Introduction

Alberta is an interesting province. Its people are very proud and independent and they have a refreshing tradition of bucking the establishment.

On December 5th, the provincial party of the Progressive Conservatives reminded its own establishment just how real that tradition is when it elected Ralph Klein as leader and the new Premier of Alberta.

From where I sit, it's hard to imagine the word conservative showing up in the same sentence with the name Ralph Klein. I understand Albertans are having such a difficult time of reconciling the two that they have dubbed the Conservative party the Ralph Party.

Probably the only person who was not surprised that Ralph won the leadership race was Ralph himself. He's quite used to doing things others imagine impossible.

In 1980, following an 11-year stint as a journalist on the civic affairs beat with Calgary's CFCN Television, he decided to run for mayor. He put his life savings, all $300 of it, into his campaign. His boss found the idea so implausible that he refused to air the announcement.

But Ralph won the election, and the next one, and the next one. In 1986, he took 92 per cent of the vote. He brought the hugely successful Winter Olympics to Calgary. And by the time he was finished with municipal politics, he was the most popular mayor in the city's history.

He was so popular, former Premier Getty invited him to run in the 1989 provincial election. He was elected and appointed Minister of the Environment.

But now he's here in central Canada to talk to us about Alberta and opportunities. Two words in my vocabulary that have always gone together. Please join me in welcoming the Premier of the province of Alberta, the Honourable Ralph Klein.

Ralph Klein

Members of The Empire Club of Canada, distinguished guests, and ladies and gentlemen, it is my distinct pleasure to be with you today.

Since becoming Premier of Alberta a little over two months ago, I have had the opportunity to make a number of speeches, but I confess this is the first organization I have addressed that has been in existence longer than the province of Alberta.

Your founding on November 18, 1903, makes The Empire Club some 22 months older than the province of Alberta. In a world of dramatic change, that is a remarkable testament to the enduring strength of your mandate, adopted some 90 years ago, and I quote:

...dedicated to the interests of Canada and the Commonwealth, in partnership, for peace and progress, with our friends and allies throughout the world....

In that spirit, I thank you again for the opportunity to be with you today.

I spoke a moment ago about the fact that we live in a world of dramatic change. Certainly, neither Alberta nor Canada is immune to that change. And it is how we respond to change that will determine the future we are creating today.

Some of you may be familiar with the Banff School of Advanced Management in Banff, Alberta, where a six-week course in dealing with change is offered to senior managers from various organizations around the world.

The motto of the Banff School is simple: it is the Latin phrase *Adaptor, o pereo*; Adapt or Perish.

And if that doesn't convey the message, each graduate of the school is given a small lapel pin of a dinosaur, the most famous example of those who did not adapt, and who did perish.

So, to adapt, to keep this nation competitive and in pace with the world as we approach the end of the century is the formidable task of all Canadians.

If a nation is the sum of its parts, then Canada's provinces and territories have a critical role in working with the federal government to achieve our goals.

Albertans have always prided ourselves on having a strong voice at the national table. Today, therefore, I would like to discuss Alberta's perspective on a number of issues that speak directly to The Empire Club's goal of "progress in the interests of Canada."

The first is the critical issue of federal-provincial co-operation for efficient government. The issue of streamlining government is an issue of increasing priority.

All governments in Canada have significant public debt, thus we must examine new ways of working together to reduce government taxation and regulatory burdens, and thus reduce the cost to the taxpayer.

At the First Minister's Conference on the Economy, the Prime Minister and premiers agreed to work co-operatively in reducing overlap and duplication in eight specific areas: Social programs, job training, national infrastructure, international trade, agriculture, fisheries, sales tax co-ordination and eliminating internal trade barriers.

From Alberta's standpoint, a priority is eliminating barriers to internal trade. It is ironic that a country so dependent on international trade should face such difficulties in trading amongst ourselves. Provincial trade ministers have agreed to recommend to their respective cabinets a new and comprehensive process to address internal trade barriers by June of 1994.

This approach is being considered to accelerate the process of pursuing sectoral agreements in government services procurement, construction, wine and spirits, and extending agreements to cover municipalities, academic institutions, and hospitals.

Comprehensive negotiations, it is hoped, will ultimately lead to an agreement identifying prohibited internal trade practices and the establishment of a dispute settlement mechanism.

It is likely that there will be opposition to this initiative from some vested interests as trade barriers are removed. Already, various facts and figures are being debated regarding the cost-benefit ratio of this policy.

From Alberta's standpoint, the elimination of barriers to internal trade is entirely consistent with our intergovernmental policy since 1986. We are of the opinion that trade barrier reduction will result in new export opportunities for Alberta businesses.

Equally as important, we fear that failure to achieve progress could undermine our international competitiveness, and encourage the federal government to adopt unilateral measures to resolve the issue. As I'm sure you know, Alberta has long opposed unilateral action by the federal government when co-operation could have led to a better solution.

A second area where Alberta believes there needs to be change is in the area of federal-provincial fiscal relations. I know that Premier Rae has also commented strongly on this matter.

While we have differing political philosophies, we do have in common (with British Columbia), the distinction of being two of the three provinces that do not receive equalization payments.

And, in 1990, the federal government unilaterally imposed a ceiling on the annual rate of growth in Canada Assistance Plan Transfers to the same three provinces: Alberta, Ontario and British Columbia. These actions have hampered Alberta's ability to carry out its constitutional responsibilities to design programs to meet local needs and priorities.

For example, when the economy slows and unemployment increases, social assistance expenditures rise. Yet the cap on Canada Assistance Plan Transfers will impact Alberta to the tune of $300 million to the end of 1994–95.

The federal government has historically been reluctant to consider changes in this area, but we will nonetheless continue to press Ottawa to refrain from imposing conditions which restrict the ability of all provincial governments to be accountable to taxpayers for program expenditures and delivery.

One area where there is no doubt that Premier Rae and I disagree is on the question of the North American Free Trade Agreement, or NAFTA as it is known. The agreement, signed on December 17 of last year, was strongly supported by Alberta.

We believe it will provide an opportunity to expand and improve provisions of the Canada-U.S. Free Trade Agreement. In particular, we believe it will provide all Canadians with new export opportunities.

In Alberta's case, we will see an opportunity for Alberta's oil and gasfield equipment and service industries to participate in the development of Mexico's energy sector. As well, there are long-term benefits with respect to sales of meat, livestock, oilseeds, and grains to Mexico.

To those who oppose NAFTA, I would simply say that it is our belief that through liberalization of trade and investment and the expanded economic opportunity and activity that it brings, all of North America is better positioned to compete with the new European economic trading block and the Far East. In all of these areas, ladies and gentlemen, the economy, and not the Constitution, was, and is, the No. 1 priority.

First Ministers have not met on the economy since March, 1992, and thus Alberta believes it is timely to discuss these broad economic issues in order that a plan for prosperity can be developed.

We are emerging from an insidious recession that has made Canadians fear for their economic well-being, and that of their children. In the streamlining of federal-provincial governments, in reducing internal trade barriers, in our fiscal relationships, and in progress on NAFTA, we feel that a First Ministers conference on the economy is crucial.

On the day after the Charlottetown Accord was defeated by referendum, I called upon the Prime Minister to convene a First Ministers meeting on the economy. I did so because I believed then, and I believe now, that the rejection of the agreement was due, in large part, to the feeling by a majority of Canadians that we should do no less than meet to attack these issues head-on.

Ladies and gentlemen, I mentioned a moment ago the Charlottetown Accord, and I would like to take a minute to talk about Senate reform, which, of course, was an important component of the agreement. I do so with some hesitation, because I am reminded of the story of the three people lined up before a firing squad, a Russian, a Canadian and an American.

When asked for their last request, the Russian said: “I would like a glass of vodka.” The Canadian said: “I would like to talk about Senate reform,” and the American said: “I would like to be shot before the Canadian speaks.”

But let me simply say this: Albertans feel that the reform of the Senate is a fundamental solution to Canada’s historic regional dissatisfaction. Canada’s immense size is both her blessing and her curse, and, indeed, it has been said that Canada is a triumph of politics over geography.

A vast majority of Western Canadians believe that that triumph is not complete until a reformed and elected Senate speaks equally, and effectively, for all Canadians.

Ladies and gentlemen, I have spent some time this afternoon talking about some of the problems we have; some of the challenges we face; and some of the issues that stand in the way of our prosperity.

For all those challenges and issues, both Alberta and Canada have had many successes. And as Canadians face the problems that lie before us, we can look for support to the most distinctive thing about us, the one thing that we all share, our history.

I am an optimist; I think most Canadians are as well. We are a people that have travelled far together. We have faced recessions and depressions; we have gone to war, and to this day we help maintain peace around the world; we have survived linguistic and constitutional strife; and we have been equal to these challenges because we share our history and have a common vision for the future.

When Albertans talk about the values that Canadians share, the one they mention most often is equality, but a flexible equality. If I may quote from the Alberta Select Special Committee on constitutional reform:

The constitution must reflect and embody the equality of the people of Canada and the existence of equal provinces. The concept of equality must take into account historical, cultural and economic realities; the concept is sometimes better served through different, rather than uniform, treatment.

In conclusion, ladies and gentlemen, it is on the basis of the foregoing quotation, that Alberta stands ready to play her part in the future development of a strong, united and prosperous Canada.

I thank you very much.

The appreciation of the meeting was expressed by The Rev. Canon Harold Roberts, Rector, St. Timothy's Church, Agincourt, and a Past President, The Empire Club of Canada.

February 11, 1993

The Hon. Jean Chretien

Leader of the Liberal Party of Canada

THE LIBERAL APPROACH TO ECONOMIC GROWTH

Chairman: **Robert L. Brooks**
President, The Empire Club of Canada

Introduction

In this election year Canada is facing some tough choices. Change seems to be the watchword for the coming decade. And hope. We hope the recession is really over. We hope the deficit can be reduced. And we hope our next government will change the direction our economy has been taking.

Jean Chretien has figured prominently on the public stage in Canada for over 25 years. He was first elected to the House of Commons at the tender age of 29. He then went on to distinguish himself in several elected and appointed government positions. In fact, Mr. Chretien has held virtually every major portfolio in the federal government.

He has served as Minister of Justice, the natural post for a lawyer, Minister of Industry, Trade and Commerce and as Deputy Prime Minister and Secretary of State for External Affairs. But he will perhaps be remembered the longest for his establishment of four new national parks when he was Minister of Indian Affairs and Northern Development. While those parks will, we hope, live forever, Mr. Chretien also had the good fortune of administering one of Canada's more short-lived initiatives, the National Energy

Program. As a banker, I have particularly fond memories of one of its famous fallouts: Dome Petroleum, which, as you know, is no longer with us.

During the 70s, government policy leaned towards direct intervention in the economy, including the provision of funding to ailing companies and industries. Now Mr. Chretien's party has taken a leaf from the book of another famous Liberal, Mackenzie King, who wisely said that "the politician's promises of yesterday are the taxes of today."

So in the current economic climate, Mr. Chretien has turned to investment and training opportunities instead of regional development funds. He has also promised to rid us of the GST. But as one Toronto columnist recently pointed out, he has left a hole in the donut. Perhaps today we will find out whether the hole will be filled with jam or cod-liver oil.

Mr. Chretien, as leader of the federal Liberal party and the Opposition, has challenged the Conservative government on its fiscal and social policies for the past three years. He is here today to present us with the Liberal platform for change.

Please join me in welcoming our distinguished guest.

Jean Chretien

A strong economy is the essence of a strong society. This is why sound economic policy must be at the root of good public policy. We know all too well what can happen when our economy does not function as it should. And today it is not functioning as it should despite what the government says about the recession being over.

Here in Toronto, walk up Yonge Street, as I have. Visit Regent Park, as I have. Talk to a worker who's lost his job after 20 years. Or a university graduate who can't find a first job. Listen to a small business person explain how it is impossible for her to get the capital she needs.

Drop in on a foodbank. See the boarded-up factories, the empty office towers. Don Mazankowski should do all these things, as I have. And then let him look Canadians straight in the eye and say the recession is over.

Just look at the figures, 325,000 jobs lost in manufacturing since 1989. More than 206,000 bankruptcies in Canada since 1990. Forty per cent of service-sector jobs paying wages below the poverty line. The average family income no higher today than it was 10 years ago. Let's just say that if they made a movie about the Mulroney years, they would have to call it: *Honey, I Shrunk the Economy*.

The fact is that there is one major issue facing Canadians in the coming election campaign—and believe me, it is coming sooner or later: Jobs. How to get our economy moving again and put Canadians back to work. The challenges we face as a country require a new approach, an integrated view of the factors which contribute to a better society and more choices for Canadians.

And there is one major test for the politicians: Which party is best able to accomplish that goal. I want to tell you today why I believe that party is the Liberal party.

The Conservative government has been in office for almost nine years. You cannot blame them for all our economic problems. But they made some very basic mistakes.

No policy caused more damage to the Canadian economy than their zero inflation obsession. Our major trading partners understood the need for balance. They were concerned with economic growth and jobs, not only with inflation.

They did not share the same macho approach as the Conservative government to monetary policy. Tough. Merciless. Impressive. Except for one thing. The operation, as the saying goes, may have been a success, but they have come awfully close to killing the patient.

To achieve zero inflation they hit us with a double whammy—a high cost of capital for those who had to borrow combined with a high dollar. Our export industries became less competitive. Rather than help our manufacturing sector modernize to keep its competitive edge, they devastated our industry.

Unemployment soared. Consumer confidence dropped. Because of high interest rates, carrying charges on the debt increased by billions of dollars for both federal and provincial governments.

You know, the Prime Minister has actually said:

"We are going to squeeze inflation out of the system. In the process we have induced a slowdown. It's as clear as spring water."

Well, if he thinks that this devastating recession is nothing but a slowdown, then I have to wonder what they are putting in his spring water.

The zero inflation obsession—combined with a do-nothing approach to adapting to new international realities—has been disastrous for Canada's international balance of payments position. In 1984, Canada's current account position was in surplus. The 1992 deficit will exceed $30 billion.

Never before has Canada been so much the prisoner of foreign creditors. The Conservatives have borrowed too much abroad and they have borrowed much too much short term. Canada has too many IOUs in the hands of foreigners.

We live in a world where economic events in other countries have a direct impact on our lives. Another fundamental economic mistake of the Conservative government has been the refusal to support the efforts of Canadians to adapt to major change in the marketplace.

They entered a Free Trade Agreement with the United States, but did not provide any adjustment assistance for Canadian industries or workers. They ignored the report of the de Grandpré Commission which they themselves appointed. The sad truth is they have done nothing because they have not grasped the role of government in a modern economy.

And that is why our economy is in such deep trouble. "Trickle-down." "Stay the course." "Let the market forces alone decide." It's all very familiar. And it may have been very popular during the 80s. But it's just not good enough now. If we are going to get our economy moving again—and get Canadians working again—we must change course.

That's what a Liberal government will do. I will not create unrealistic expectations. I know that we will inherit serious problems. I will not play the old game of making lavish promises today and breaking them the day after the election on the grounds that the books are worse than we imagined.

There will be no miracles and no quick-fix solutions to all our problems. But this does not mean nothing can be done. On the contrary, there is much that can and must be done.

We have before us the challenge of adapting the role of government to a new world. The key is to set a goal. And work with every sector in our society to achieve it. Our economic goal is simple: To help the private sector create well-paying jobs with a real future, and help Canadians adjust to change.

The role of government in economic policy is two-fold. First, setting an overall framework. This includes monetary and fiscal policy, trade policy and federal-provincial fiscal relations. Second, government has another role, and that is to work in partnership with provincial governments, business, labour and non-governmental institutions to attain national economic objectives.

There's no secret recipe. Only hard work. Common sense. A pragmatic, balanced approach. Other countries like Germany and Japan have been faced by the same global economic factors as Canada. But Canadians have been hammered by the fallout from this new global economy. And those countries have prospered because business, labour and government have worked together. We can too.

These are the fiscal commitments Liberals would bring to government:

- We are committed to fiscal responsibility.
- We are committed to unwavering discipline in controlling federal expenditures.
- We are committed to holding off on new programs that do not contribute directly to the promotion of economic growth and jobs.
- We are committed to a reduction in the deficit, both in absolute numbers and as a percentage of Gross Domestic Product.

- We are committed to reducing the national debt as a percentage of Gross Domestic Product.

These commitments will help restore the confidence of the international community. We will then regain the flexibility to employ fiscal and monetary measures to support worthwhile domestic objectives.

We must shift the focus from shrinking the economy to expanding the economy. The fiscal policy flowing from the commitments I have outlined will make possible monetary policy that produces lower interest rates. We must reduce short-term real interest rates and make them competitive with American rates. Our business community today has to pay rates almost double those American business pays. No wonder we are not as competitive as we should be.

Zero inflation cannot be the only object of economic policy. We require a balanced approach that takes into account the need for economic growth as well as low inflation. Our inflation targets should allow us to be competitive with our major trading partners.

Liberals believe that we should attempt to do about as well as the United States on inflation. Only in very unusual circumstances should we attempt to do much better. The current price of our inflation policy—1.6 million unemployed—is unacceptable. And I refuse to pay that price.

A Liberal government will aim at paying our way in the world. We must balance our international current account, so we can create jobs at home—and not export them abroad.

I turn now to another important area of policy. And I refer to federal-provincial fiscal relations. I begin with the basic premise that the role of governments is to serve the citizen, not to compete with each other.

If we are to create jobs at home, we must get our house in order. Instead of trying to score political points, we have to learn to co-operate. Look at what the current government has done.

To make its books look better, it cut billions in transfer payments to the provinces. The provinces then cut services and downloaded their deficits to municipalities. At the end of the day, it's still the same taxpayer stuck with the tab.

A Liberal government would insist that the rules of the game must be clear. All ministers of finance need as much predictability as possible. Current federal-provincial fiscal arrangements relating to Established Program Financing expire in 1994.

It is a basic principle of Canadian federalism that Canadians share risks and that there must be a basic minimum level of public services available from coast to coast. To achieve this, a renegotiation of federal-provincial fiscal arrangements will be a major priority of a Liberal government. And our objective will be to achieve the maximum degree of predictability for both levels of government.

The crisis in public finance extends well beyond the issue of transfer payments. But crisis can bring opportunities for solutions born out of compromise and consultation.

The Conservative government imposed the GST on Canadians. They did not listen to the people. And when the provinces disagreed, the Conservatives broke off talks. The GST has destroyed public confidence in the fairness of the tax system. It has expanded the underground economy. It has lengthened and deepened the recession. It is costly for small business to administer. And it is very expensive for the government to collect.

We must restore confidence in the fairness of tax policy. We must co-operate with the provinces in public finance. Above all, we must not repeat the Tory error of imposing major tax reform without full public participation.

In the first session of a new Parliament, a Liberal government will mandate the Finance Committee of the House of Commons to fully consult Canadians and provincial governments and to report within 12 months on all the options to the current GST.

Our objective is very clear: that the GST be replaced by a system which generates equivalent revenues, but which is fairer to consumers and to small business and which promotes federal-provincial fiscal co-operation.

That kind of co-operation is also essential to put Canadians back to work. Liberals believe, at a time of low inflation and high unemployment, that now is the time for an infrastructure program in co-operation with provinces and municipalities. The provinces are willing. The cities and towns are willing. A national Liberal government would be willing.

Our infrastructure program would create jobs now. And not classic make-work jobs, here today and gone tomorrow with nothing left to show for it. Improved public transit, telecommunications infrastructure, environmental protection and roads and bridges are all investments in our future, in our long-term economic strength. The Europeans are doing it. The Japanese are doing it. The Americans will be doing it too. Canada must not be left behind.

If we really want to create economic growth, it doesn't make any sense that there are now more trade barriers between Canadian provinces than between the nations of the EEC. A Liberal government will work in co-operation with the provinces to bring down these barriers.

Canada must rebuild its industrial base. We need new value-added industries. In the new economy it is the information and knowledge-based industries and value-added manufacturing that will be the foundation for industrial renewal and growth. These are the industries that will create the high-wage jobs our economy needs.

We have to get our priorities right. This is not the time to fight the Cold War by spending billions of dollars on military helicopters.

We have to put money into people by investing in research, in our universities, in training and infrastructure that have real long-term economic benefits for Canada. In the global economy, Canada will not be the only country competing for these jobs. That is why we need a workforce that is second to none in skills and flexibility:

- A Liberal government will establish, in partnership with provincial governments, business and labour, a National Apprenticeship Program.
- A Liberal government is committed to a tax-based on-the-job training incentive.
- A Liberal government will create a Canada Youth Service.

I am convinced that if we invest in our people, we can compete globally. And with one in five jobs directly dependent on exports, we must compete. And we must secure and increase access to world markets.

Free, fair and open trade is essential to the future of our country. In the past, the multilateral trading system under GATT has served Canada well. A successful Uruguay Round will provide Canadian firms with the opportunity to invest, create jobs, develop new technologies and products, and of course, to trade.

That is why the Liberal party continues to support the GATT as the cornerstone of Canada's trade policy. I am worried about the apparent lack of progress in the current negotiations.

I am deeply concerned by the development of regional trading blocs. However, like it or not, we must recognize that they are becoming a reality. We cannot ignore the reality that the United States is our largest trading partner. The challenge is to manage our trading relationship with the United States in a way that best serves Canadian interests.

Canada's key objective in the free trade negotiations with the United States was to "secure and enhance" access to our largest export market. For that a mutually-acceptable set of trade rules was essential. Only if the rules of the game were agreed upon, could Canada expect to enjoy anything resembling a "level playing field."

The Conservative failure to resolve the issue of trade rules meant that Canada was left with a half-finished trade agreement. The result—our steel, pork, softwood lumber, magnesium and lobster exports have all been subject to U.S. trade actions and harassment measures.

How can this be? It's very simple. The FTA did not include codes on subsidies and dumping. These are essential if free trade is to be fair trade.

The North American Free Trade Agreement gave the government an opportunity to correct major flaws in the FTA. Instead, the NAFTA would almost completely scrap the working group on subsidies and anti-dumping. Instead of correcting the energy give-away in the Free Trade Agreement, the Conservatives allowed Mexico to get protection for its energy resources that Canada does not have. And the problem of trade rules was not addressed.

The fact is, that without a common set of trade rules to govern the North American market, Canadian exports will continue to face trade harassment. And if you are an auto executive sitting in Tokyo or Munich, you are going to think twice about locating your next North American factory in Canada, and run the risk of being denied secure access to 90 per cent of the market.

A Liberal government will seek changes to both the Free Trade Agreement and North American Free Trade Agreement. We need:

- A subsidies code.
- An anti-dumping code.
- A more effective dispute resolution mechanism.
- Agreed upon labour standards.
- Agreed upon environmental standards.
- The same energy protection as Mexico.

Unlike the Conservatives, we know an opportunity when we see one.

There is a new administration in Washington. They have said they want to reopen a number of these same areas. A Liberal government will take them up on it.

Not only will we seize opportunities. We will create new opportunities. If it is inevitable that a Western Hemisphere Free Trade bloc evolves, Canada must play an active and independent role in defining that bloc instead of always reacting to Washington's hub-and-spoke approach to trade in this hemisphere.

Canada should be working with other countries to minimize dominance by the strongest partner. A Liberal government would work to build common Western Hemisphere institutions to provide political, demographic and economic counterweights to the United States.

But while we must seize the opportunities of trade in the Americas, a Liberal government will not turn its back on the rest of the world. The fastest growing economies in the world are in the Pacific Basin. The current government has ignored that region. And Canada is a Pacific Basin nation. A Liberal administration will put a high priority on expanding trade with this dynamic region.

The Canada-Japan 2000 Forum, co-chaired by Peter Lougheed, has recently charted the way to expand trade in that region. A Liberal government will act on that report and immediately establish a non-governmental panel to implement the recommendations.

Trade agreements are not an end in themselves. The ultimate objective is to secure a better life for people. That means jobs with a future in industries with a future.

And in Canada that future belongs to small- and medium-size businesses. There are today 900,000 small- and medium-size businesses in Canada. They create more new jobs than any other sector. And they must be the economic focus of a Liberal government. Now, this does not mean new federal spending. What it does mean are policies that would help these companies to develop and expand in Canada and to become exporters and world competitors.

It takes Canadian companies much longer to find out about new technologies than their foreign competitors. That's one reason they are more successful than we are in creating new goods and services to sell to the world.

In Canada, we have to start looking at technological innovation as an opportunity, not a threat. That is why a Liberal government will invest in gathering technological information for Canadians. We want to create a national information network, and ensure it is used as widely as possible, so that companies across Canada can take advantage of that information to get a share of the international market.

Government can also help in other basic areas, including training, research and development and its commercial application, capital availability, and enhanced trade opportunities.

Our platform in the coming election will spell out programs and strategies for these Liberal policies:

- Improved and continuous training for workers and managers.
- Initiatives to help businesses to bring new products to markets.
- Initiatives to speed technology acquisition by small- and medium-size companies.
- Initiatives to assist small- and medium-size companies to export to markets they have never before considered.
- Initiatives, in conjunction with provincial governments, to reduce the regulatory burden on small- and medium-size business.

Wherever I travel in Canada, I hear the same thing from entrepreneurs: They cannot get adequate financing. Even in the most promising, leading-edge sectors of the economy of tomorrow—areas of high growth, like software development, environmental technology, broadcasting products and databases—there is not enough capital available.

These companies are just on the verge of taking off—making the transition from small to medium size companies. Then—bang! They run into a brick wall because they can't get financing.

We support the changes now before the House of Commons to the Small Business Loans Act. But they do not go far enough. Liberals will propose further reforms, to make it easier for small business to get financing. And we will propose ways to facilitate equity financing for small- and medium-size businesses.

But for many of these companies, it's not just the Small Business Loans Act that stands in their way. It is some of the practices of the major Canadian banks.

Canadian banks do not operate in an unregulated environment. Over the years, they have benefitted a great deal from the protection of the Bank Act. And that is one reason why Canadian banks have been so stable and secure compared to American financial institutions.

I believe it is time for the banks to give something back. The time has come for the government to exercise leadership and to challenge the banks to sit down and develop concrete ways to help Canadian businesses find the capital they need.

The government should not decide which companies get access to capital. But the government and the Prime Minister have a responsibility to bring the financial community together with its partners in the economy to give such companies a fighting chance. This we will do as a government. And I will expect the big banks to do their share in helping build the economy of the future.

Ladies and gentlemen, jobs, getting our economy moving again and putting Canadians back to work, these must be our national priorities. To meet them, we will need a new government with new energy and new ideas, a government that combines experience, common sense and a fresh approach.

Today I have outlined to you why I believe a Liberal government would meet that test. But if we are to change course every month we wait is precious time lost. Every lost month is another lost opportunity. The government is in the fifth year of its mandate. Its rendez-vous with the people is overdue. It is no longer acceptable for a tired, discredited government to cling to power. The time has come for Canadians to decide. My party and I are ready for that moment.

The appreciation of the meeting was expressed by Hershell Ezrin, Executive Vice-President, Speedy Muffler King, and First Vice-President, The Empire Club of Canada.

February 18, 1993

The Hon. Bernard Valcourt

Minister of Employment and Immigration

THE NEED FOR CHANGE

Chairman: **Robert L. Brooks**
President, The Empire Club of Canada

Introduction

Canada is a country made up of immigrants or children or grandchildren of immigrants. Its history is filled with the stories of people struggling to make a home, build new lives, and forge a country. It's a history Canadians can be proud of.

Much of our success as a nation comes from a tradition of opening our doors to the world. Yet, the issues surrounding immigration practices have always posed difficult problems. The benefits of immigration are sometimes poorly communicated or misunderstood. As a result, new Canadians are often blamed for any number of society's ills. This is a sorry fact that is especially true during hard times.

So how does one plot a course between a generous and economically advantageous immigration policy and the sometimes volatile emotions of a suffering public? It is a problem that calls for the wisdom of Solomon.

There's a story in which Solomon was asked this question by a child: "How can you tell a good country from a bad one?" Solomon replied, "You apply the 'gate' test. When the gates of a country are open, watch which way the people run. Do they run into the country or out of the country?"

Today's speaker, Bernard Valcourt, is Canada's Minister of Employment and Immigration. As such, you might say he's Canada's gatekeeper.

A native of New Brunswick, Mr. Valcourt practised law until he was elected to the House of Commons in 1984. He was first appointed to Cabinet in 1986 as Minister of State (Small Business and Tourism).

Since that time, he has served as Minister of Corporate Affairs, and Minister of Fisheries and Oceans. He assumed his current portfolio in April of 1991.

Today, he will be speaking about the future of immigration policy in Canada and how it will be managed. And it is fitting that he is addressing the topic here in Toronto, the city the United Nations recognizes as the most multi-cultural in the world.

Please join me in welcoming our distinguished guest.

Bernard Valcourt

Thank you for your kind remarks. As you probably know, I have been kind of busy in the last few days and weeks. The UI changes I intend to see through Parliament kept me so busy, I thought I might have to cancel this opportunity to speak with you today—what an excuse!

But then, I realized I would have been labelled a voluntary quitter—and I am not! So, here I am—and glad to be out of Ottawa.

The Empire Club has, for so many years, provided Canadians with a forum for serious dialogue on issues of great importance furthering public understanding of increasingly complex matters, and in doing so, furthering good government and good public policy. Such opportunities and platforms are of critical importance if we are to make effective public policies in a world of such complexity, one becoming so profoundly interconnected and intermeshed.

It's impossible these days to pick up a serious magazine or newspaper without coming across the words globalization, new world order, or international competitiveness, and that also has an impact on immigration. We are constantly using these words—or if not the words, the concerns—whether in government, in your chosen professions, even among friends. We are not alone. The same discussions are taking place in many Western countries.

I was at the recent World Economic Forum in Davos, Switzerland, and I was not at all surprised to hear the individuals assembled there discussing those very words.

If this is happening, and I suspect almost everywhere, it is not because governments and politicians like to indulge in rhetoric. Even though they do. It is because there are some very real changes going on in the world. It is becoming more and more connected. It is shrinking. Globalization really is occurring. And what this means is that events around the world impact directly on Canada. Similarly, decisions taken in Canada cannot be taken in isolation of these global forces.

The issue that is facing a great many governments and countries today—certainly it is facing all of the governments who are members of the OECD—is slow growth. When our incomes don't grow fast enough, we can no longer hope to sustain our standard of living, our social programs and many things we hold dear. And so, we are all searching for a way to grow faster, to enhance our prosperity and to become more competitive internationally.

Never before now has there been a greater need for greater understanding of the major issues of our age and serious debate on policy alternatives as we confront a world which is changing at an incredible speed and daily growing more complex and interdependent. And never before has there been such a critical need for all peoples to deepen their collective understanding and act in concert with each other in confronting the challenges of a new world order and a new and very different age.

On reading the remarks of your guest speaker last week, I was forcibly reminded that I would not be contributing to serious public understanding and debate unless I took the time to first address the central issue he and his colleagues have raised in the past several months. They place much of the blame for the effects of the global recession on the policies of the federal government, especially on our determination to control the deficit, to reduce inflation, further free trade with the U.S., and reform taxes. Their other major villain and scapegoat is the banks. When you are short of ideas and arguments the banks provide such a convenient target.

If this were not a year of decision for Canadians such musings could perhaps be ignored. But the choice facing Canadians later this year will largely lie between sharply different conceptions and sharply different track records in defining the role of government in the economy.

And greater public understanding of the choice we must make will determine whether Canada grows and prospers in the 21st Century or reverts back to the twists and turns, the contradictions, and explosive growth of government that characterized the 60s, 70s and early 80s, when this nation was governed by a party which could never resolve its internal divisions and contradictions on economic policy.

This is the same Liberal party that today provides no evidence that they have reconciled the extreme views of their left and right factions, and from day to day one has no certainty which will prevail. The age we now live in demands a consistent and coherent view and its steady and measured application.

The pressures of globalization and technology, which are speeding the degree of integration of all peoples around the world, making each of us the other's neighbour, are also posing equally formidable challenges of both adjustment and governance. In particular, the very process of governing ourselves in the public and private sectors so that we can collectively pursue widely shared goals in the most effective way has to be our over-riding preoccupation if effective decisions are to be achieved.

This means that how we set goals throughout our society to frame the issues and define the ends we seek and how we inform ourselves to make choices together in terms of our goals and the means for their achievement must become an up-front, top-of-the-agenda, concern and focus.

When we meet together to choose our collective path we have to constantly be reminded that no single thing on earth stands in isolation from every other single thing. One cannot consider education, or more broadly learning, or competitiveness issues, or labour market measures, or immigration and refugee policies, or foreign policies, or social policies, or land-use policies, or whatever without attempting to fully understand how each and all relates to the other.

We have to think holistically or systemically and plan and act increasingly so, for the real world is not readily divisible into abstract and unlinked parts with impermeable boundaries. And yet daily there are enormous pressures pushing us in the opposite direction. The reality today in all western democracies, even while we are deluged with information, is an ever-present danger that decisions of major importance will be considered in isolation or be taken on partial or incomplete information or on questionable assumptions, leading to ineffective measures, at least, or really costly and damaging results.

Our world is mirrored to us in 10-second clips, or in catchy headlines, which more often than not trivialize rather than explain. Achieving any single goal, be it creating more jobs or lowering inflation, cannot be achieved by single government actions, catering alone to the cries for government to act when real solutions demand comprehensive approaches and the full partnership of all individuals and sectors.

The door is too wide open for the appeals of demagogues, and there is too great a readiness to accept their simplistic reasoning and solutions, denying the interdependence of all things, the underlying causes, and the fact that there are no quick fixes or simple approaches.

Today I join you as a member of a government that since the outset of our mandate has deliberately resisted such pressures, and has a tangible track record to prove it. We are a government that has consistently pursued comprehensive approaches, searching out underlying causes and fearlessly dealing with them.

We have placed on the national agenda and have resolved or made progress on a host of major issues that other governments repeatedly feared to even raise, much less confront. Let me quote the noted Quebec economist Pierre Fortin, who certainly is no apologist for my party, in a report in last week's *Globe and Mail*:

"Canadians will be very grateful to the federal Conservative Party for its actions and policies in office—20 years from now."

That's the verdict from economist Pierre Fortin who writes that the Conservatives, despite their errors, have succeeded in putting the brakes on a disastrously ballooning public debt inherited from the Trudeau Liberals.

"This required…exemplary discipline and courage. Never since Confederation have we seen a government apply such a string of tax increases and spending cuts through two complete mandates. The Conservatives have, for the moment, saved federal finances from the abyss."

This is only one part of the story. Federal expenditures grew in every single year over the 15 years of the Trudeau-Chretien era by 14 per cent a year. Today, we have limited that growth to four per cent a year and now the federal government's operating budget is in surplus, and has been for the last five years.

From a deficit position in the operating budget of $16.1 billion in 1984–85, we have reached a surplus of over $12 billion for this fiscal year. In fact, we have accumulated an operating surplus of $25 billion since 1987–88.

Do you realize what this means? This is money that could—and should—have gone into long-term investments and, instead, is being used to pay the interest on our public debt. If it were not for the interest payment on our national debt, we would have a net surplus this year of $12 billion to invest in infrastructure, education, training, as well as medical, technological and scientific research—whether applied or fundamental—not to mention the continued vitality of our social programs.

Instead, 30 cents out of every tax dollar we levy goes to paying down the consequences of the irresponsibilities of 20 years ago, and that's a fact. I can't change it; we can't change it. We can't wish it away. It's the reality, it's there.

Yesterday, I was in the House of Commons and I couldn't believe it—even for a little guy like myself from Atlantic Canada—to see this guy on the other side standing up and accusing us of having doubled the national debt of Canada. Yes, the national debt has doubled, but what he didn't add is that compound interest on the national debt—which was there in 84–85—is larger than the total amount of the debt at the time.

The absolute necessity of the resolute deficit reduction actions that we have taken was further confirmed by the C. D. Howe workshop report released this week, which warned of the dire consequences if all governments in Canada continue to allow the public debt to escalate. The gravity of the problem has now led both major opposition parties—the Liberals and NDP—to change their rhetoric and at least acknowledge that there is a problem with a growing public debt.

But this recent claimed conversion, of sorts, of the Liberals and the NDP, including Mr. Chretien's ringing declaration on this very platform last week, I very much regret to say, are hollow, and yes, empty gestures, even deceptive and totally misleading. For the reality is that every single expenditure reduction measure proposed by the federal government since 1988 has been roundly and soundly denounced and opposed by both opposition parties in Parliament.

You simply cannot have it both ways on the debt and deficit! Either you have the conviction and courage to bite the bullet and cut, and pay the political price for doing so, or you mislead Canadians into believing that you are four square for debt reduction but oppose every single measure designed to achieve this very goal.

The magnitude of the public debt shared by all governments in Canada is simply too great for any government to sustain the confidence and support of international markets while pursuing high-risk strategies of this kind. Like it or not, international markets are the ultimate test of the monetary and fiscal policies pursued by any government.

They look for hard evidence to the track record of parties in power in making their determination. And there is no question that the economic policies that we have pursued since 1984 have earned the confidence and support of international markets, and continue to do so.

The Leader of the Opposition claimed last week on this platform that our inflation target and accomplishment, bringing inflation and high interest rates to historic lows, was the most damaging of all our economic policies. This is clearly and firmly not the judgment of either international markets, major international institutions, nor respected authorities here in Canada and throughout the world.

We have also bitten the bullet in eliminating a job-destroying, export-destroying, and growth-destroying hidden manufacturers' sales tax with an open and known value added tax which today is spurring Canadian exports and increasing the competitiveness of Canadian industry, Canadian entrepreneurs—men and women from Newfoundland and Labrador to B.C.—struggling to enter and compete in these markets.

And no Canadian has been deceived by any attempt to hide or obscure this tax. Examine closely how the others dither and shift their ground repeatedly, not in their opposition to the tax, but on what precisely they would do to alter it or raise the equivalent revenues. After more than a century of struggle Canada finally has secured a formal trade agreement with the United States. Until then, Canada was the only G-7 country not to have secure access to a market of at least 100 million.

The FTA represents a major breakthrough for Canada and the results are now in, as documented by the C. D. Howe

Institute and other objective authorities. Our exports to the U.S. are driving our economic recovery. The prospects of NAFTA, agreed to by the three governments, will further trade liberalization and Canada's foreign policy objectives in Latin America, for NAFTA represents bold leadership in creating the world's largest regional trade alliance in our hemisphere.

We are now emerging from a global recession that no government could avoid. We have a strong foundation for real growth in place. Within my own immediate areas of responsibility—employment, unemployment and immigration—with my friend Michael Wilson on the Prosperity Initiative, and with my friend Benoit Bouchard on the social security discussion paper.

And within my own areas of responsibilities at Employment and Immigration, there are a number of key illustrations where we fearlessly and honestly confronted the "untouchables," developing pragmatic, consistent and coherent responses, and resisting the misleading and even deceptive voices of those who would have us believe that there are easy answers or quick fixes or that progress, growth and prosperity can be achieved without cost or pain.

Our prime objective has been, and continues to be, building a strong, highly skilled and internationally competitive workforce in Canada, for we can no longer rely only on natural resources in this knowledge age and global economy to sustain our prosperity. We have clearly drawn the links between the domestic labour market prosperity, and immigration.

Through the federal Prosperity Initiative, we have placed competitiveness and learning at the top of the national agenda, engaging in a highly innovative and effective information, education, and consensus building process that has truly deepened public understanding and set forth an action plan which individuals, firms, organizations, and all governments, who collectively hold the key and solution, can act individually and collectively to achieve national goals to further our long-term prosperity.

As a government, we have taken certain steps, and a principal thrust of our strategy has been shifting the UI funds from passive to active.

We often talk in Canada about our social safety net. I am from New Brunswick in Atlantic Canada. When I speak of the social safety net, I think of it as a fishing net. And when you get caught in it, you never get out. And that's what we have done with this social safety net in Canada.

I have seen a generation—if not two—of people back home who never work. Kids see their parents only working 10 weeks a year in order to qualify for UI. As Minister of Fisheries and Oceans, I remember a seventh grader who wrote to me once.

"Monsieur Valcourt, you have no heart. My mother will now have to qualify for 12 weeks instead of 10. My mother won't be able to get her UI. No, Monsieur Valcourt, when I get to be 16, what do you think will happen to me?"

I cannot understand how people in this country can pride themselves in the social safety net which has caught my brothers and sisters, my neighbours, family and people. The net is perpetuating dependency, and not just among Atlantic Canadians—we see the culture of dependency all across Canada. The system in Canada today is providing disincentives to learning new skills. It even targets those who are not in need. That's our system.

This is the problem which we are facing. Some dismiss this as nothing. Let me cite you an example of how the system perpetuates dependency. In this great province of Ontario, you could have a family of four on welfare; the gross income somewhere in the neighbourhood of $18,000 a year. The reasonable alternative for a worker would be an annual income of $24,000—but being taxed back at 105 per cent. Canadians are not stupid.

I am not blaming the welfare recipient. I am not blaming those who use, and rightfully so, the Unemployment

Insurance Program. I cannot blame them. I cannot even blame those who would voluntarily quit a job without just cause. I cannot because it is legal, it is the incentive.

The system today states that if you want to quit your job, I will pay you benefits. This is what we are doing in this country. And, you know, all of a sudden, because I have made a little change, I am the most wanted man in Ottawa. But I think that we should give more credit to the Canadian taxpayers than certain people want us to. That is why, as I said earlier, we will see these changes through.

When in New Brunswick, I often hear people speaking about freedom. Freedom is something which we cherish very much. Yet, how free can a person be if they cannot read? How free is one who cannot count? And how free is an individual who does not have basic skills? I then see people who get trapped on welfare and, after time, can never hope to get off. It is a safety net. When one gets caught, it is impossible to escape.

The proposed changes to UI represent one little step in the right direction of breaking this cycle of dependency. Another example was found in Minister Mazankowski's Economic Budget, where, for the first time in this country, low-income working people will get supplements under the new child benefits package. We will have an incentive for working people.

In the budget, and now, we will not reward those who quit their jobs without just cause. This is just one step in the right direction. We must move beyond dependency. We must move into a society of opportunity.

Some were offended that my government has taken a number of major steps to ensure that our immigration and refugee system continues to be fair, contributes to our prosperity, provides for family reunification and humanitarian relief while reflecting the needs and values of Canadians. Business immigrants and skilled immigrants all make a direct contribution to Canada's international competitiveness and future prosperity.

The world's scarcest resource is brainpower—human capital in the form of technical skills, scientific skills, and executive and entrepreneurial talent. The companies and countries that marshall such skills and talents most effectively will emerge as world leaders.

Human resources used to be relatively immobile. We must start to think more of human capital as part of a worldwide market for labour. We are in serious competition with other nations for this talent. Globalization of labour is good for the world, deploying human resources where they can be most productive. The challenge for the 1990s and beyond will be to develop foreign worker recruitment, immigration and visitor policies to meet the needs of international competitiveness.

After years of discussion, an intensive review, further consultation and a lot of hard work, I introduced last year to Parliament Bill C-86, the first comprehensive set of amendments to the Immigration Act since 1976, which now have been enacted into law. These amendments represent no revolution in Canadian traditions. What we have done is reorient our policies to better respond to the needs of Canada and Canadians and to ensure that the balance in the system is re-established.

We have given ourselves the tools we need as a country to manage immigration in the 1990s and pave the way for the 21st Century. In large part our traditional view of immigration saw Canada at the centre surrounded by immigrants pressing to get in. In the past, in order to regulate who and how many got in, all we had to do was control the gates: make it tougher to qualify if we wanted fewer people, and make it easier to qualify if we wanted more.

As Minister, I quickly learned that this was not an adequate view, and a new perspective, and a number of specific changes, were urgently required:

- The system could not regulate the numbers of people being admitted.
- The system did not select the best people, but those with the best access to the system.

- The system was characterized by long delays and poor service to employers searching abroad for scarce skills.
- I saw a system that did not respond to people on the basis of when they made their requests but on the basis of their luck in getting into the right lineup.
- Of most importance, I saw a system which was no longer supplying Canada adequately with the talent and abilities that we needed to become internationally competitive and to prosper.
- I saw many of the benefits that we have come to associate with immigration being eroded.

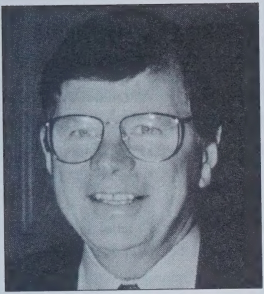
Bill C-86 was designed to correct these deficiencies, so that we can better achieve the objective originally set out in section 3 of the 1976 Immigration Act: "To foster economic growth and to promote the prosperity of Canada and its regions."

Over the next several months, and following these consultations, I intend to set out a clear and lasting direction for the immigration program.

On the road to confronting underlying realities and developing comprehensive responses, there was some diversion with the UI issue. I think we've done the right thing.

This is not the time to hike taxes in Canada. I am ready to wager that if, in this year of choice, people look at the alternatives, they will want to reconfirm and send back a principled team of men and women to govern this country.

The appreciation of the meeting was expressed by Tony van Straubenzee, President, van Straubenzee Consulting, and a Past President, The Empire Club of Canada.



February 25, 1992

The Hon. Clyde K. Wells

Premier of Newfoundland and Labrador

MANAGING THE FISHERY

Chairman: **Robert L. Brooks**
President, The Empire Club of Canada

Introduction

John F. Kennedy predicted that there will be four key questions when the high court of history judges politicians:

> *First, were (they) truly men of courage... Second, were (they) truly men of judgment... Third, were (they) truly men of integrity... Finally, were (they) truly men of dedication?*

In my opinion, most Canadian politicians do not get very high scores on that test. But, if the letters of support he's received are any indication, The Honourable Clyde Wells is well up in the rankings.

A lawyer by profession, Mr. Wells indulged his interest in politics for the first time in the 1960s but then resigned from Joey Smallwood's cabinet over conflicting ideas about investment incentives in Newfoundland. He was persuaded to re-enter politics and give up his legal practice for a second time in 1987 and became Premier of Newfoundland in 1989. He came to national attention, of course, with his deeply held opposition to the federal government's Meech Lake proposals.

When it comes to principles, Mr. Wells has a reputation among his colleagues for being about as flexible as a rock. So, it is perhaps fitting that he comes from Newfoundland. Now as a matter of principle, he has decided to try and change the course of the economy in Newfoundland and move the people towards greater self-sufficiency.

Last June Mr. Wells made public a new strategic economic plan. With this plan, he hopes to generate enough investment in his province to end its dependence on government transfers. If his scheme works, the high court of history may very well bestow on him the mantles of courage, judgment, integrity and dedication. It will take a lot of each of these qualities to succeed in revitalizing an economy that has, for so long, been so spare.

Please join me in welcoming our distinguished guest.

Clyde Wells

I would like to thank the directors of this distinguished institution for giving me the opportunity to address you today. It is not a small honor and I acknowledge it as such. I had intended to address you on my views on the current political and economic situation in the country as a whole and Newfoundland and Labrador in particular. The events of yesterday make things tempting but I'll still stick with my original intentions.

It is now four months, just under four months, after the referendum. Until yesterday it seemed more like it was four years. It seemed like it happened so long ago that most people had almost forgotten it. But yesterday things seemed to get resurrected and, I hope, only for a very brief period. But it does raise the question of where are we in this country four months after the referendum?

Constitutionally we are essentially in the same position as we were, say after the 1982 amendment, no significant change. The problems that existed and continued throughout that period are still there, the dissatisfaction and the disharmony that has grown, not just in the last five to 10 years, but over a quarter or half a century.

In Quebec, there is still the sense that there is not a means within Canada where there can be a full expression of the expectations of the people of Quebec and where the aspirations of the people of Quebec can really be achieved; that level of dissatisfaction is still there.

There is still that level of dissatisfaction in Western Canada, in particular that feeling of sort of being alienated from major decision-making in the country. The sense that the vote really doesn't count in Western Canada, that decisions are made by means of the overwhelming majority of members of the House of Commons that come from the central provinces of Ontario and Quebec. That sense of alienation is still there, there is no Triple-E Senate to correct it.

The sense of alienation in Atlantic Canada, being left out of the economic mainstream of the country, is still there. It is there in my own province, a province where after 40-odd years since Confederation with Canada the earned income is still less than 60 per cent of the national average, and less than 50 per cent of the Ontario average.

The other Atlantic provinces are marginally better off, but only marginally, so that sense of frustration of not being able to achieve a means of correcting the economic disparity is still there. The sense of alienation and dissatisfaction amongst our Aboriginal People is still there, it has not been addressed as a result of the failure of the most recent efforts.

Very little, if anything, can be done about any of those things, at least until there is a new federal mandate and a new election and an adequate period passes to allow these issues to be discussed in a reasonably dispassionate and objective manner.

I believe we have to move rather quickly to address the Aboriginal issue. The need for it has been made clear recently by the awareness, the growing public awareness, of the state for example of the Innu people in Labrador in my own province. Much of the representation that you heard in the media is totally inaccurate and incorrect and over the next week or so I hope to take steps to correct some of it.

That doesn't mean that there isn't a major problem, there is a major problem that needs to be addressed and Davis

Inlet is only one of many Davis Inlets throughout this nation. So that needs to be addressed.

Economically and financially we are in major difficulty in this country, and have been for quite some time. We have been trying to cope with a persistent recession; it just doesn't seem to want to go away. In more recent weeks, there is an indication of some signs of improvement and some reason to be more optimistic.

But the thing that is clear is that the recovery is going to be very slow. We are not going to turn it around very quickly and there are a number of reasons.

One aspect is the extent to which the Canadian economy is dependent on what happens in the United States. Unless, and until, they turn around and increase their demands for our goods and services, economic activity in Canada will be diminished below a level that is sufficient to enable the vast majority of people of this country to earn an adequate living for their families and generate a sufficient level of revenue for government to manage public affairs.

There are other factors at this particular time that exacerbate the situation in Canada; for the first time, at least in living memory, the massive economic engine of Canada was dealt a body blow in this more recent recession. Apart from what happened to the fishery in Newfoundland, or the economic consequences of the fisheries problem, I don't think any province of Canada suffered more severely, proportionately, than did Ontario.

Don't forget that Ontario is to Canada, in terms of an economic engine, what the United States is. If the United States economy doesn't improve then we have narrow chances of showing marked improvement in Canada because they are such a major portion of our market. Within Canada, Ontario is such a major part of our economy that if it is excessively restrained, or if it is in greater difficulty, then the whole nation is going to take a lot longer to recover.

Another major factor is the problem of our persistent deficit and the constantly growing national debt—year after year after year at all levels of government, federal and provincial.

We came out of the 1982 recession fairly quickly because government was able to stimulate the economy. But the deficits that were created by those measures were never, after that, brought under control. We just continued to borrow and continued to have massive deficits year after year.

Despite the commitment of Mr. Mulroney and the Conservative government to deal with this deficit problem, they were never really able to come fully to grips with it. But it is not a federal problem alone. Look at the impact that the provinces, collectively, are having on the debt and deficit situation in the nation.

The provinces, too, have a responsibility here, they just can't look at what the federal government is doing and not look at the impact that they are having. The result is we have built up a massive debt.

The C. D. Howe Institute recently stated that in 1975 the total debt of all the provincial and federal governments was a whopping $50 billion. In 1993 it is $665 billion. Now you don't have to be a raving economic genius to be aware of the consequences of that circumstance and the impact on the nation as a whole.

It is sort of like a family with a level of income that could support a $50,000 mortgage on their house, without any real significant change of income, suddenly finding itself with a $665,000 mortgage. It is really no different. We must deal with the problem if we are to preserve the financial integrity of this nation and all of its component parts. It is abundantly clear taxes, at least taxable loans, are not the way to deal with it because the more we take out of the economy in taxes, the more we limit its ability to generate revenue and the more we impair the ability of government to really respond to the problem.

So that is the problem that we all have to take responsibility for; premiers and provincial governments can't simply stand back and say it is a federal problem. It is a national problem that we all have to be determined to deal with collectively.

Worse still, I have told you that the total debt in 1975 was a whopping $50 billion. To put the picture in perspective, the deficit for this year alone, of the federal and provincial governments, exceeds $58 billion. Now that will tell you where we stand and the kind of action that we must take to deal with this problem.

It also gives us a very difficult challenge—the problem of convincing the Canadian people of the seriousness of the situation and the necessity for governments to take strong measures to curtail their spending to get the deficits under control. But at the same time, not so depressing, psychologically and economically, that they won't continue to spend and build and improve the economy.

The more we try to convince people of the seriousness of government problems, speaking for myself at home, the greater adverse impact I have on the spending habits of people. So we have to find the right balance.

This is not an insolvable problem, it just takes a little discipline and restraint on the part of all the governments and all of the people of the nation to recognize that this is a real and serious problem and we have just got to deal with it constructively and in a disciplined way. But primarily we must recognize that it is not a federal problem only and all of the provinces have responsibility.

That is the challenge that the government of Newfoundland and Labrador has been facing for the last four years. Like most new governments we came to power with the determination to improve it, to help correct economic disparity that has existed for so long, to find solutions. We developed the Strategic Economic Plan as part of the means of finding a solution. During the course of that time we encountered some pretty substantial obstacles that made the challenge far greater that we ever anticipated, not the least of which is the inherent weakness in the Newfoundland economy. It is a narrow resource-based economy.

We know we are not going to be manufacturing airplanes or automobiles so the first element of the Strategic Economic Plan is to be realistic. We know that we are not going to solve the problems overnight because if the economic performance of Newfoundland were twice the national average year after year, without exception, it would take more than 25 years to catch up to the national average.

You ask yourself what are the prospects of the economic performance of Newfoundland being twice the national average consistently for 25 years? So step No. 1 is to be realistic.

That is what we have tried to do, but we didn't count on a number of other significant factors. We did not count on the extent to which the national obsession with constitutional issues would divert attention from economic matters and other social concerns for such a long period and, in the end, achieve so little.

We didn't count on the worst recession since the Great Depression of the 1930s. It has been a most persistent recession and I would judge that the recession has affected this nation more than any other since the depression of the 1930s.

We didn't count on having the kind of financial crisis that we are in as a result of the deficit persistence and the recession that lowered governmental income to make it virtually impossible to reduce the deficit. All of that has exacerbated the problem.

But, more than anything else, we didn't count on the federal government closing down the major portion of the Newfoundland fishery, putting a moratorium on the northern cod fishery. Now it would take far too long for me to detail for you the history of the northern cod and how it relates to the Newfoundland economy. But suffice to say that all of the communities on the northeast coast of Newfoundland are totally, and have been for 400 years, dependent on the northern cod.

When I say all of those communities, don't forget that of the 623 communities in Newfoundland, only 10 are not on the tide water; everything is focused on the fishery. It was the northern cod that, for much of the year, was out in the North Atlantic Ocean anywhere from 20 to 200 miles offshore. But in the spring they migrate inshore to all the bays and coves. That was the fish stock on which Newfoundland was built.

There was nothing else in Newfoundland unless you mined in the early part of the century. They built a paper mill in 1905 and another one in 1925, but there really was nothing else but fish; Newfoundland was fish. Everything we did was fish; our currency was fish much of the time. It was the currency that people used and went to the supplier and got supplies and paid in the street. That is how the province was built. It was essential to our existence to have a secure supply of the northern cod.

Well, we became a province of Canada in 1949 and it was the right decision. We should have been a province of Canada since 1867. When we did join Canada, management of the fishery transferred from the government of Newfoundland to the government in Ottawa and there was nobody there who knew what a cod fish looked like. And I am not sure that there is anybody there today who knows what a cod fish looks like, judging by the decisions that are made.

But it didn't take long. In the 50s and 60s the foreign fleets developed a deep sea trawler technology where they could shoot out the trawl and haul back anywhere from 30 to 60 tonnes of fish.

Anywhere from 60,000 to 120,000 pounds of fish would come out of the one net. You don't have to be a biological genius to figure out the impact of that on a natural species, even something that is as incredibly abundant as the northern cod.

Well with that kind of foreign fishing, pretty soon the catch of the inshore fishermen started to go down from in excess of 200,000 tonnes—that was the men who went out in rowboats and little punts, that's what they fished out of the sea. For three centuries they did that without any damage to the fish stocks, until the mid-50s and 60s and the deep sea trawlers.

The government of Newfoundland became worried and the federal government started to get some control and put some pressure on foreign fishing; remember foreign fishing used to take place three miles off the coast.

I remember in the community where I lived looking out in the Gulf of St. Lawrence and seeing what looked like a small city with the number of ships out there vacuuming the fish out of the sea before the Law of the Sea came to be in the mid-70s.

By the late 70s they got it a bit under control, but by then the catch of the inshore fishery was down to 36,000 tonnes from 200,000 to 250,000. My predecessor in office, Mr. Peckford, and his government made the strongest possible representation to the federal government of the day, which happened to be a Liberal government, and we persisted with the present federal government, which happens to be Mr. Mulroney's. We urged caution; decisions could affect the lives of tens of thousands of people. We argued against increasing the total allowable catch. We pleaded with them.

Mr. Peckford got so exasperated he used to ask for constitutional jurisdiction in Newfoundland. In other words, we would make the law that would apply to the North Atlantic. I disagreed with him for a couple of reasons; it involves international interaction and that should be done by the national government. There is also an interprovincial dimension; one province shouldn't be making laws that could have an impact on another province. The third thing: We have a real struggle finding enough money to exercise the jurisdiction we have now and I'm not quite sure what we would do to exercise jurisdiction over 400,000 square miles of the North Atlantic Ocean.

So for practical reasons I said just give us a say in the management, let us participate jointly in the management because we have warned you over the years what is going to happen if you didn't listen.

Well they didn't listen to Mr. Peckford and they kept increasing the total allowable catch and they told the

Newfoundland people and all Canadians generally, there would be a total allowable catch of 350,000 to 400,000 tonnes by 1985.

Fishing is going to be so good, build boats, build plants so you can find work. They started to increase the total allowable catch. It went up from 67,000 tonnes in 1977. They pushed it until 1988 when they wanted to put it up from 256,000 to 295,000 tonnes.

In the meantime, the inshore fishermen were crying constantly that the fish stocks were being diminished. The inshore fishery was going down, they couldn't catch the fish because there were no fish coming ashore. They were being caught in vast quantities offshore. But still the federal government said they were going to put it up to 295,000 tonnes.

We give Mr. Peckford and the former government due credit, they screamed blue murder and the federal authorities said OK, we will only put it up to 266,000 tonnes. That was in 1988. In four years it was put to zero because the stock was destroyed, because they wouldn't listen to the fishermen and those who knew about fishing. They wouldn't listen.

Prior to 1977 the Newfoundland fishery caught between 98 and 100 per cent of all the northern cod caught. It supports the fishery. This northern cod is just east of Newfoundland. It is not adjacent to Nova Scotia, New Brunswick, Prince Edward Island, Quebec or anywhere else; it is all east of the coast of Newfoundland and it is the fishery on which the people of Newfoundland rely.

Yet they persisted in allowing foreign vessels to have a certain level of fishing. They persisted in allowing Nova Scotia, New Brunswick, Quebec and others to access the northern cod and take it by idle plants in Newfoundland and bring it to Nova Scotia.

And when Brian Peckford screamed, he was accused of being greedy. It is hard to tell the 25,000 people who have been put out of work because of the moratorium on northern cod in 400 communities where there is no other means of earning a dollar, that Brian Peckford was being greedy. He was simply trying to protect the interest of the people who had built that fishery and relied upon it for 300 years.

I don't think that is being greedy; I think that is trying to preserve and build the economy of that part of Canada that happens to be in the geographical boundaries of Newfoundland. There is no opportunity to farm in Newfoundland, there is no opportunity to build Michelin tires, there is no opportunity to build Chrysler, GMC or Ford automobiles, no opportunity for smelting. People of all of those communities know, and have known for 300 years, only fishing.

Despite the request of the Newfoundland government for joint management of the fishery, previous Liberal and Conservative governments resisted. Why? Those mandarins in Ottawa think they know more about how to manage fish than the people who have been doing it for 300 years—and did it successfully until 1950.

Obviously they don't, as has been proven on two separate occasions. And, despite all this, they have seen the fishery all but destroyed. This time it may be too late. It may be that the cod stock once fished so extensively that in one year they took 800,000 tonnes of the northern cod, may have come to an end.

I have been trying, in a clearly civilized way, for the last four years to persuade Mr. Mulroney and Mr. Crosbie to have joint management of the fishery. They seem to be afraid they are going to ruffle some feathers in Nova Scotia, because if Newfoundland is involved in joint management Nova Scotia will want joint management.

I said to the Prime Minister last November that doesn't cause a problem. Put in place a joint management board and, if you have 10 people on it, name five from the federal government and five from the Newfoundland government and let them manage the fishery in the waters around Newfoundland. The same five people from the federal government can be part of the Nova Scotia board too. You can make them the federal constancy and part of the New Brunswick or the PEI or the Quebec boards.

But for heaven's sake, we want some say in the management of the resource that is fundamental to our future. If there isn't joint management, John Crosbie will have been the Newfoundlander who presided over the destruction of the cod fishery in Newfoundland and Labrador. If there isn't joint management, recovering the stocks won't be worth anything because there is no reason to believe that it will be managed any differently and the people of those small coastal communities will continue to have to depend on assistance in order to live and put bread on the table.

There is an opportunity to deal with the economic problems of Newfoundland and Labrador. I put forth a proposal to the Prime Minister in September. He responded very quickly in November. In January he replied that he was prepared to engage the federal government at the most senior level to work with the government of Newfoundland and Labrador to deal with the persistent economic problems.

Up until this morning I haven't been able to reach him on the phone for the last few weeks. Federal officials have not returned any of our phone calls in over two weeks. I don't know if the Prime Minister's decision yesterday had anything to do with it or any impact on it, maybe it did.

But there is a solution to the economic problems of Newfoundland. There is a substantial opportunity for the fishery in the future and for it to be a major part of our economy. There is a substantial opportunity for oil to be tremendously beneficial to Newfoundland and Labrador and to Canada. Don't forget that more than one half of the direct economic benefits from the Hibernia is going to other provinces.

There is the opportunity to develop a variety of other economic ventures for the people of Newfoundland and Labrador: tourism, small manufacturing, the use of foreign trade zones which we continually ask the federal government to consider, at no cost to them. It doesn't cost them a dollar. They just provide special opportunity to allow it to be done.

There is the opportunity to improve the economy, not only of the province of Newfoundland and Labrador, but all of this country, if Canadians are prepared collectively to take discipline, unselfish decisions, and to put the interest of the nation as a whole ahead of selfish needs.

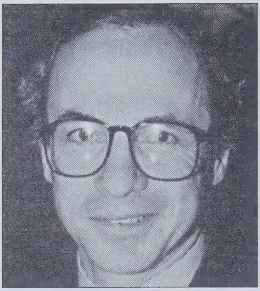
What we in Newfoundland and Labrador need to help develop our economy are the tools to do it. Not charity to survive without it, even though it may be given with the greatest financial generosity. When you do that, you do more harm than good. What we need is the means of doing it and the key to our future is joint management.

If I have to I will stomp this country from one end to the other to tell Canadians we need that, and to point out that it is grossly unfair treatment to the province of Newfoundland to leave us at the mercy of mandarins in Ottawa who know little or nothing, and probably care less, about what happens to the fishery of Newfoundland and Labrador.

We need to participate in the management of the resource because it is such an important part of our economy.

I hope I haven't spent too much time talking about matters that are of special concern to me, but I thought it important that Canadians in other parts of the country hear first-hand something of the Newfoundland economy. Thank you very much.

The appreciation of the meeting was expressed by The Hon. Barnett Danson, P.C., Consultant, and an Honorary Director, The Empire Club of Canada.



March 4, 1993

Tony Aspler

Author, *Vintage Canada, 1993*

THE ONTARIO WINE INDUSTRY

Chairman: **Robert L. Brooks**
President, The Empire Club of Canada

Introduction

There is a saying that in wine there is truth. Twenty years ago, the truth about Canadian wines was that they were barely palatable. Then, Europe collectively looked down its nose at Canada's wines. Today, nothing could be further from the truth.

Canadian wines are fast gaining a reputation for quality and taste throughout the world. A fine example of this change is the widespread belief that Canadians have surpassed the Germans in the art of making ice wine.

In part, the success of Canada's wine industry can be attributed to the skills of wine authorities like today's guest speaker, Tony Aspler.

Since 1964, Mr. Aspler has been active in the international wine world. He studied his art at the grants of St. James Wine School in London, England, where he passed with distinction. Since 1980, he has been the wine columnist for *The Toronto Star*, and is probably the most widely read wine writer in Canada.

Before I sat down to write my introduction, I asked a friend if he had ever heard Mr. Aspler speak. My friend said yes. When I asked him what he was like my friend replied: "Dry, very dry."

Oh well, we bankers never have been known for our sense of humour.

All punning aside, as a consultant and a judge who frequents European vineyards and wine fairs, Mr. Aspler is regarded as the leading authority on Canadian wines. In addition, he is a prolific writer of mysteries, with several novels and anthologies to his credit.

Today, he will be speaking about the Canadian wine industry and his most recent book called *Vintage Canada 1992*. Please join me in welcoming our distinguished guest.

Tony Aspler

Good afternoon, President, ladies and gentlemen. First, I would like to thank The Empire Club for inviting me to talk about Ontario wine. As a 20-year critic of the industry, I can't wait to hear what I have to say.

I recall when Michael Broadbent, the Master of Wine, addressed The Empire Club some years ago he said he felt naked standing up here talking about wine without a glass in his hand. I guess all wine people feel the same way. Which puts me in mind of that old Country and Western classic: "I'd rather have a bottle in front of me, than a frontal lobotomy."

When I began writing about wine in 1975, the term Ontario wine was an oxymoron. You may remember Ontario wines then were mainly enjoyed by gentlemen who did most of their entertaining standing up in doorways, drinking out of brown paper decanters.

The Ontario products they favoured were sweet, highly-alcoholic beverages. Along Parliament Street they were known as "block and tackle wines." You drank a bottle, walked a block and you could tackle anyone.

Come alive for a dollar five. Remember that?

How times have changed. Ontario wines are winning gold medals in international competitions and restaurateurs of the finest dining rooms in our city are urging their clientele to try Ontario Chardonnays. But there are pockets of resistance.

Some very nice people still suffer from Niagraphobia. The symptoms are a morbid fear of being caught serving Ontario wines, buying French products whatever the cost and using the local product for cooking so that your guests won't see the label.

Yet Ontario wines have now become the Cinderella of the wine world.

What caused this amazing turnaround in the perception of our wines? I believe the principal reasons, and I will develop this theme in a moment, are two acrimonious acronyms, and try saying that after a couple of glasses of wine—FTA and GATT, the Free Trade Agreement and the General Agreement on Trade and Tarriffs—which together helped to generate another acronym, VQA, the Vintners Quality Alliance.

VQA is an appellation system for Ontario wines similar to the Appellation Controlée laws in France or the DOC laws in Italy. Every wine-growing country has its own wine laws. These are regulations governing geographical limitations, grape-growing, natural sugarlevels, production methods, quality standards, etc.

The VQA was put in place for the 1988 vintage and it was then that the Ontario wine industry began to show its true potential. To give you an idea of how the consuming public has responded, sales of VQA wines in 1992 rose 72 per cent over the previous year. In dollar terms that's sales of $26 million.

I got this figure, incidentally, from *The Financial Post*. The writer made a felicitous error in calling VQA the Vintners Quality Assurance, rather than the Vintners Quality Alliance. I prefer that. It sounds more like a bank than an insurance company.

VQA on a bottle of Ontario wine means that 100 per cent of the grapes were grown in one of three designated viticultural areas: Niagara Peninsula, Lake Erie North Shore, and Pelee Island. In broad outline, it means that authorized grapes have reached a certain degree of ripeness and that the wines have been tasted by an expert panel for typicity and quality.

Who among you has never tasted a VQA wine? Who hasn't tasted one since breakfast? In order to show you how far the industry has come, I'd like to take you back in history. The industry, believe it or not, began in Mississauga. Actually, it was called Cooksville then.

The acknowledged father of Canadian wine was a German corporal named Johann Schiller who was given land for his military service. Schiller had experience in winemaking in the Rhine Valley. Near his house on North Dundas Street was the Credit River, and along its banks Schiller found wild grapes growing.

These were labrusca grapes, the native North American vines. Keep that name in mind because that species is the Ben Johnson of Canadian wine.

Schiller domesticated these grapes in his own vineyard and began to make wine which he sold to his neighbours. The next notable character in Ontario wine was Count Justin de Courtenay, a Frenchman who began his winemaking in Quebec.

He was the first wine lobbyist. In 1863 de Courtenay sent two bottles of his wine to the Premier of Lower Canada. The wine was tasted by a government consultant who pronounced it sour. De Courtenay, in the tradition of winemakers everywhere, sent back a blistering reply saying that all it needed was bottle age.

De Courtenay was so disgusted by the way his wine was received he moved to Upper Canada and bought Johann Schiller's property the next year. And three years later, in the year of Confederation, we find him sending his wines off to the Paris Exposition.

Will he never learn? But surprise, surprise, the wine was well received. Only in Canada, you say. Pity. The tasters at the Paris exposition found de Courtenay's wine to have some resemblance to Beaujolais. In reporting the event, *The Toronto Leader* wrote on July 8, 1867:

The time will come, we hope and verily believe, when grapegrowing and winemaking will be one of the principal employments of our population; and when it does come, the cause of temperance will be advanced to a degree which could be reached by no other process.

Ontario had a flourishing grapegrowing industry long before de Courtenay arrived on the scene. If you had been around in 1857 you could have read a letter in the *Canadian Agriculturalist* from a farmer, John Kilborn, who wrote that "four or five barrels of wine were grown from a single vine in the Township of Grimsby."

These days a vine will produce a bottle or maybe a litre of wine. But four or five barrels! The vine in question had an estimated 1,200 clusters of grapes. The wine tasted like port, apparently. A little bunch thinning might have helped.

In that year, 1857, a certain George Adams planted what would become Canada's first commercial vineyard. It was on a farm that originally belonged to Laura Secord's brother-in-law, Maj. David Secord.

The next significant date was 1866 when we see the first occurrence of Free Trade in the wine industry: Three gentlemen farmers from Kentucky bought 20 acres of Pelee Island, planted a vineyard and created a winery there called Vin Villa.

Eventually they marketed their wines through a Brantford grocer, Maj. J. S. Hamilton. Hamilton asked Vin Villa to produce a communion wine which he labelled as St. Augustine. Eventually, like Victor Kiam, he bought the company in 1909. Forty years later the Hamilton company was sold to London Wines and, today, London Wines still produces St. Augustine communion wine.

In 1873 Georges Barnes opened Barnes Winery. The next year Thomas Bright and his partner, F. A. Shirriff, opened a winery in Toronto. They called it the Niagara Falls Wine Company and 16 years later that's where they moved. In 1911 they changed the name to T. G. Bright and Co. Today, Brights is Canada's largest winery and the seventh largest in North America.

In 1916, half way through the First World War, the government of Sir William Hearst brought in the Ontario Temperance Act. All bars, clubs and liquor stores were to be closed for the duration of the war. In 1916 and 1917, all but one of the provinces went dry. Quebec held out until 1919.

The Women's Temperance Union had triumphed. But not for long. They hadn't reckoned with the power of the Ontario farmers. The grapegrowers pressured the government so hard that Ontario wines were exempted from the act.

When Prohibition came in there were 10 licensed wineries. Each winery was allowed one store outlet only and that had to be on its premises. The public could only buy five gallons or two cases at a time.

Since wine was legal and distilled spirits and beer were not, wineries began to spring up all over the province. Between 1917 and 1927, when the Liquor Control Board of Ontario was founded, no fewer than 57 licences for new wineries were issued.

There were wineries in Fort William, Port Arthur, Kitchener, Belleville, Sudbury and Toronto. There were two kosher wineries in Toronto, one of which was started by Rabbi Jacob Gordon at his home at 116 Beverley Street. He manufactured Passover wine in his basement. In 1928 his company was sold to the Oporto Wine Company on the Danforth who in turn were bought out in 1978 by Chateau-Gai.

During Prohibition there were no quality controls on winemaking. A lot of wine was the oenological equivalent of rot-gut gin. But that didn't stop people imbibing. It was Prohibition more than anything else that turned Canadians into a nation of wine drinkers.

During 1920 to 1921, Canada consumed 222,000 gallons of domestic wine. Ten years later, the figure was 2.2 million gallons—and that was for Ontario alone! Eight out of 10 bottles were red port, 20 per cent alcohol, very sweet and made from the labrusca variety, Concord.

When Prohibition ended in 1927, some sort of control of the sale and distribution of beverage alcohol had to be put in place. The LCBO was born. Viable companies like Brights and Jordan, encouraged by the Ontario government, began to buy up the licences of the small operators. This way the number of wineries was reduced from 51 to eight.

Let's fast-forward to the next major development in the industry. The year is 1974. A young Italian nurseryman and a former Austrian seminary student decide that they can make better wines than the labrusca-based confections they bought at the LCBO. They have applied to Gen. Kitching, Chairman of the LCBO, for a licence to start Ontario's first estate winery. The licence is granted and Donald Ziraldo and Karl Kaiser founded Inniskillin Wines.

This precedent allows Paul Bosc to leave Chateau-Gai and create Chateau des Charmes. Joe Pohorly opens Newark, now Hillebrand Estates, and Pelee Island and Colio are born. The first wave of Ontario's small wineries has happened.

But the new winemakers wanted to use the noble European grape varieties such as Chardonnay, Riesling, Gewurztraminer, Gamay. They dreamed of making Pinot Noir that tasted like Burgundy, Cabernet Sauvignon and Merlot that tasted like claret, and sparkling wines that tasted like Champagne.

They were not interested in the labrusca varieties, Concord and Niagara, that had been the staple grapes of the Ontario wine industry for over 100 years.

Wines made from labrusca grapes smell as if you've left your dog out in the rain. Frankly, I would rather drink the glue they use to stick on the label than a bottle of labrusca wine.

More enterprising Ontario growers began to pull out their labrusca vines and plant Chardonnay and Riesling, and eventually, Cabernet Sauvignon and Merlot to meet the demands of the winemakers. The quality revolution was slowly beginning to happen. But these new wines were a tiny proportion of what was being produced by the major wineries at the time.

Then we had the second wave of estate wineries: Rief, Vineland Estates, Cave Spring, Konzelmann, Stoney Ridge, Henry of Pelham. And most recently the emergence of farmgate wineries—growers who decided to make their own wines—Marynissen Estate, Lakeview Cellars, Hernder Estate. With the advent of these small farmgate wineries the industry returned to its roots, back to the days of Johann Schiller and Justin de Courtenay.

In 1982 I wrote a book on the Canadian wine industry as a whole. I tasted over 600 wines and wrote notes on them all. I admit now I was charitable in my assessment, hoping to encourage the winemakers to produce better wines.

Last year I came back to the subject with a book entitled *Vintage Canada*. The difference between the wines then and the wines now is like night and day. First of all, the labrusca varieties have been banished from table wines. French hybrids such as Seyval Blanc, Vidal, Marechal Foch and Bach Noir make the basic table wines and blends. These are good value and eminently drinkable. But a wine region is measured on the quality of its noble varieties—the style of wines you find in France and Germany. And today Ontario wines can stand next to the wines of Europe without a blush.

And now I come back to my theme—the success of VQA.

Ironically, it was the combined forces of free trade and the GATT that gave Ontario wines the impetus to compete with European and New World imports. The FTA and pressure from European winemakers finally forced the Ontario government to eliminate markups on imported wines.

With the gradual phasing out of preferential markups, Ontario wines had to appeal to the consuming public on taste rather than price. To sweeten the pill for the industry, two levels of government soothed disgruntled grape growers with a $100-million program.

This money went to uproot undesired varieties and subsidize grape prices against the cost of cheaper American grapes.

Of this sum $5 million was earmarked for a three-year promotional program. The wineries got their own assistance program funded by the Ontario Development Corporation—$45 million for "wine enhancement and image."

The injection of taxpayers' dollars was a great help, but there was also the stumbling block of consumer resistance. How was the wine industry going to convince the wine-drinking public who remembered Baby Duck that their products were now on a par with the table wines of Europe, California, Australia and South America? The answer turned out to be the institution in 1988 of the Vintners Quality Alliance.

These regulations helped to raise the image of Ontario products, an image that was further reinforced by an aggressive TV and print ad campaign. The message came through loud and clear because leading restaurants are beginning to list Ontario wines and even hotel and restaurant chains are getting in on the act.

In June an Ontario-wide *Wine and Dine* promotion will further underscore the notion that the hospitality industry has embraced Niagara's finest after years of amused denigration.

The result of this sudden attention paid to Ontario wines has been an upsurge of their sales in an otherwise depressed market. While imported table wines were down 1.1 per cent for the calendar year ending November 1992, Canadian wines (virtually all from Ontario apart from a few BC labels, one from Quebec and the occasional Nova Scotia product in Vintages) were up 7.2 per cent.

More astonishingly, wines that carry the VQA appellation—which is currently only six per cent of Ontario production—rose spectacularly. In two years LCBO sales of VQA wines have gone up by 53.3 per cent, from 520,800 litres to 1,065,700 litres. These figures do not include VQA wines sold in the wineries' own stores, which account for over half as much again.

The unexpected profitability of Ontario wines has drawn the attention of entrepreneurs who may have never farmed in their lives. Currently there are 11 applications for wineries at the Liquor Licensing Board. Two of them are grape growers in Niagara, one is a cidery near Collingwood, and eight are from potential blending operations far removed from the wine fields of Niagara.

And herein lies the dilemma of the industry. Are they making Ontario wine under VQA regulations or are they bottling imported wine?

Under The Wine Content Act of September 1, 1988, a winery can blend up to 75 per cent imported wine with 25 per cent Ontario wine. This allowed companies to set up as wineries without vineyards. Importers of grape juice began to set up as full-fledged wineries. Their success has encouraged other juice operators to become vintners.

Peter Gamble, Director of the VQA, refers to these wineries as "manufacturing plants" which have little to do with the history and roots of the industry since they have no agricultural base.

Donald Ziraldo of Inniskillin is even more emphatic: "I'm very concerned about the proliferation of all these pseudo wineries. There's going to come a time when we're going to grow up like Napa Valley. If you grow grapes in Napa Valley you only make Napa Valley wine. I think we should propose to the government that new licences be granted to wineries only if they're using Ontario grapes."

Inniskillin has recently entered into a merchandising agreement with Cartier Wines & Beverages. This kind of consolidation is the next step for the industry.

Consolidation may be the future but for the moment everyone is jumping on the Ontario wine bandwagon. The greatest irony of all is that not since Prohibition have there been so many winery start-ups in the province. Bereft of its protective tariffs, the wine industry in Canada now has to go head to head with the rest of the wine world.

There is no question that the Ontario wine industry has established itself. Ontario Icewine will become a wine as sought after as Chateau d'Yquem. Ontario Chardonnays and Rieslings will be compared to Chablis, Pouilly-Fuissé and

Puligny-Montrachet, and the Pinot Noirs will be an alternative to expensive red Burgundy.

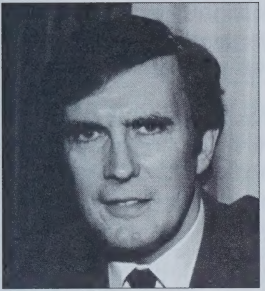
The industry has nowhere to go but up. It has a new confidence and a new vision. The world will soon discover Ontario wines. I hope that Canadians will do so before that happens.

In conclusion, I would like to say that there is a new mood of Prohibitionism that is sweeping the province. Last year Metro Council voted in the proposition that alcohol is the leading drug and that fetal alcohol syndrome warnings must be displayed in all licensed premises.

This is an issue for another talk. I will only say that history has shown you cannot control abuse by attempting to control the substance.

Thank you very much.

The appreciation of the meeting was expressed by J. A. William Whiteacre, Q.C., Honorary Secretary, World Council of Management, International Wine & Food Society, and Honorary Solicitor, The Empire Club of Canada.



March 11, 1993

Peter Foster

Author, *Towers of Debt*

UNRAVELLING THE MYTH

Chairman: **Robert L. Brooks**
President, The Empire Club of Canada

Introduction

Seven years ago, today's guest, Mr. Peter Foster, wrote these words:

> *The Reichmanns have become victims of their own success in a uniquely Canadian way; they have been encouraged by a financial and political system that loves size and indulges those with talent and chutzpah to the point of folly. It is the Canadian corporate equivalent of the Peter Principle. It might even be called the 'Paul Principle.' As corporate executives tend to be promoted to the level of their incompetence, so Canadian companies in a prevailing climate of mega-loans and economic nationalism tend to expand to the point of self-destruction.*

It remains to be seen if they proceed, like Dome Petroleum, to the point of a financial trauma so great that it threatens to bring down the banking system. With perhaps twice Dome's overall debt load, they certainly have the potential.

As a banker, why is it that I so suddenly feel the need of a sword to fall on?

Perhaps it is because Mr. Foster is a relative newcomer to Canada, having emigrated here from England in 1976, that he seems to have had insights into the Reichmann family that others—notably some of us in the banking industry—lacked. But having garnered more than a dozen writing awards since beginning his career here with *The Financial Post*, it is clear that his insights are not limited to the Reichmanns alone.

His first book, *The Blue-eyed Sheiks*, has been called the most readable account of Calgary's wildcatters and energy barons yet written. *Mckapitalism*, his story about Moscow's McDonald's, which appeared in *Canadian Business*, recently won the 1992 Canadian National Magazine Award for best business article.

But it is his newest work, a revised and updated version of the Reichmann saga entitled *Towers of Debt*, that brings him here today. Depending on what he says in the next few minutes, I'll either rush out to buy a copy when it hits the book stores this Saturday, or start considering early retirement.

In the introduction to *The Master Builders*, his first book about the Reichmanns published in 1986, Mr. Foster asked:

> *Had growth led to a change in—indeed forced a change on—the way the Reichmanns did business? Had Paul Reichmann perhaps become the victim of his own success? Or was it, perhaps, that the Reichmanns had never been equal to the mythology that had grown around them?*

I'm sure we'll all enjoy hearing him answer those questions today. Please join me in welcoming our distinguished guest.

Peter Foster

Almost exactly a year ago, Olympia and York was forced out of the commercial paper market when investors—spooked by rumours of default—refused to roll their paper over. When a small company runs out of money, it goes bankrupt. When a large company does so, it has a restructuring. Everybody attempts to keep the music playing and resist the urge to dive for one of the too few remaining chairs.

The question I shall address today is how and why—in the broadest sense—did this happen?

In one way, the answer is simple. Real estate has witnessed a devastating collapse. Olympia and York was the world's largest private real estate developer. It was engaged in one of the world's most ambitious projects, at Canary Wharf in London. It was borrowed up to the hilt. Having risen so high, it inevitably had the farthest to fall.

But the question is: How did it rise so high? It is here that we begin to deal with the most fascinating aspect of this sad story: The Reichmann Myth. It Is here that we have to examine an extraordinary man and his extraordinary relationship, both with his bankers and the media.

It was traditionally a matter of family loyalty to speak of the Reichmann brothers—Ralph, Albert and Paul—as equal partners in O&Y. In fact, Ralph, the youngest brother, remained primarily involved with their original tile business, while Albert, the eldest, although acknowledged as a fine developer, was essentially a sounding board and perhaps a moderating influence on the real mastermind and driving force behind O&Y's rise and fall: Paul Reichmann.

I say at the beginning of my book that Paul Reichmann was always easier to describe than fathom. A tall, stooped, sombre figure, always dressed in dark suits, he reminded me of an undertaker. His courtesy and modesty were certainly appealing traits.

He once expressed apparent surprise that the media should be interested in him. After all, he and his brothers were just your regular old single-generation multibillionaires.

Paul always spoke softly, with an almost labyrinthine speech pattern which reflected the complexity of his thinking. Some of his own employees used to carry tape recorders into meetings so that they could, afterwards, bend with knitted brows to decipher their master's voice.

When we write of corporate moguls, we often concentrate on the superficial aspects of their characters, and on their so-called lifestyles. But the Reichmanns did not live anything in which Robin Leech would be interested.

They reputedly relaxed on the Sabbath with the Talmud. They didn't buy yachts or hockey teams; they didn't get involved in messy divorces. The only thing that raised Paul Reichmann's pulse, reputedly, was walking.

What Conrad Black called Paul Reichmann's "rabbinical inaccessibility" seemed all the more astonishing when set against his business achievements. If there was a Reichmann Myth, it was certainly based on solid ground.

The Reichmanns came to Toronto in the mid to late 1950s from the more exotic locale of Tangier, fleeing, as they had done throughout their lives, political unrest. They had a small tile importing business and stumbled into real estate development when they decided to build a new warehouse for themselves.

From there they expanded their operations until, in the early 1970s, they undertook First Canadian Place. The project put them both on the map and into The *Guinness Book of Records*.

But it was the purchase, in 1977, of eight New York skyscrapers for $320 million (U.S.) that led to the transition from mere reputation to mystique.

New York City had been facing commercial default. There was widespread fear that it might go up in flames. Literally. The Reichmanns made their purchase at what turned out to be the bottom of the market. Henceforth, the multiplication in value of those buildings provided not merely the collateral base against which O&Y could expand, it led to a belief that the Reichmanns were magic men, who somewhere within their modest baggage carried a corporate crystal ball.

The reputation was further burnished when, in the early 1980s, Paul Reichmann, in the face of considerable scepticism, pulled off the development of the huge World Financial Centre in lower Manhattan. The project drew both rave reviews from architectural critics, and lots of high-profile tenants, such as American Express and Merrill Lynch.

O&Y appeared to weather the 1981–82 recession as if it wasn't there. Or at least they successfully created that impression. As a result, to the crystal ball was added another mythical attribute: deep pockets. The question was what would Paul Reichmann do next?

I first became intrigued by the Reichmann mythology in 1985—when the brothers took over Gulf Canada. Because of a tax break—picturesquely known as the "little Egypt bump," which was worth more than $500 million—and the fact that Petrocan, where empire building had always taken precedence over value for money, bought $1 billion worth of assets that the Reichmanns didn't want, Canadian taxpayers wound up paying as much for the Reichmanns to take over Gulf as the Reichmanns did.

The Gulf takeover could hardly have been worse timed. Early in 1986, the price of oil collapsed. And yet, instead of regrouping, almost immediately Gulf was pushed by Paul Reichmann into staging an assault on Hiram Walker resources. I studied these takeovers closely and decided that there were some problems with the Reichmann mythology.

Both deals showed that Paul Reichmann and his lieutenants were obsessively tough negotiators who never left a dime on the table. Paul Reichmann had claimed he would never carry out a hostile takeover, and disliked using lawyers. In fact, Hiram Walker turned out to be both hostile and extremely litigious.

I wrote an earlier book on the Reichmanns, entitled *The Masterbuilders*, in which I expressed these concerns. I noted that getting to the heart of the Reichmann Empire was a little like reaching the end of the yellow brick road. When you drew back the curtain, there was just one man pulling the levers. This was both intriguing and frightening.

The final chapter of my book was entitled The Paul Principle. I put forward the proposition that Paul Reichmann was in danger of being elevated by an enthusiastic banking system to the point of self-destruction. No bankers, it seems, read the book.

One of the reasons for concern was that I had written a previous book on the debacle of Dome Petroleum, when Jack Gallagher and Bill Richards, having been deemed by bankers to have the magic touch, were henceforth given enough financial rope with which to hang themselves.

At the time, there was a great deal of talk and writing about the somewhat vague supposed dangers of corporate concentration. In fact, the dangers of concentration and conglomeration relate not to those of excessive corporate power—whatever that may be—but to lack of competence.

And yet the Reichmann Myth remained intact. Indeed, perhaps its height was reached when Paul Reichmann was announced to have had himself appointed to a special exploration committee of the board of Gulf Canada. The crystal ball, presumably, was assumed to have a seismic device attached.

People seemed to imagine that Paul Reichmann would go to the map and mark the spot where oil might be found. The mystique was certainly a key factor in peddling more than $500 million of Gulf equity in 1987. But it wasn't just the essentially more gullible equity market that clamoured to put up cash.

J. P. Morgan once said that the most important consideration in providing credit is the character of the borrower. It stood to reason that anybody regarded not only as more upright than mere mortals but also financially superhuman should have the vaults opened to him.

Paul Reichmann once confided to one of his bankers that he had unlimited funds available to him. This message was designed both to impress and frighten the banker. Bankers like to lend primarily to people who don't need money, so lending to Paul Reichmann was the banker's dream. But then again, anybody with unlimited credit might choose not to borrow from your particular bank—the banker's nightmare.

Paul Reichmann was as skilful at dealing with bankers as he was at dealing with the press. If a banker was too inquisitive about the precise depth of the pockets, he might return to his office to find that Paul Reichmann had taken terrible action: he had repaid his loan! For Paul Reichmann to repay a loan was, at one time, a mark of abject failure on the part of a banker.

It would be a parody to suggest that the banks merely handed out money to O&Y willy-nilly, but the financial structuring of the Reichmann's empire was such that money was often raised against particular assets, with a guarantee given by the mother company. To ask to look into the mother company's pockets would, of course, have been impolite.

In the end, Paul Reichmann's character—in the J. P. Morgan sense—became a self-feeding phenomenon. He had to be the dream credit. Otherwise why were they all lending so much money to a man who wouldn't show them his books? And if they were content with less than full disclosure, that was hardly Paul Reichmann's fault.

The media played a critical part in perpetuating the mythology. Back in 1982, when things were surely very tight, Paul Reichmann "came clean," revealing that O&Y's net worth was $5 billion. *Fortune* obligingly printed the figure. As late as 1991, the Reichmanns were prominent in both the *Forbes* and *Fortune* lists of billionaires. The most monstrous misreading of their fortune came in May, 1992, when, at the end of a week in which Paul Reichmann had been fighting for his financial life at Canary Wharf, *The Sunday Times* declared the Reichmanns to be worth $15.6 billion.

Where can they have come up with these figures? We can only assume that they were being released from sources within O&Y, whose view of reality was, to say the least, optimistic.

How did things go so terribly wrong? The answer lay partly in Paul Reichmann's desire for ever-bigger challenges. Canary Wharf seemed to more than fit the bill.

The Reichmanns had once before undertaken development in London in the early 1970s. They'd put up a small building in Kensington. Such were the frustrations of the stratified and sclerotic British mode of construction, that the project took the same time to put up as First Canadian Place. The Reichmanns decided they wanted no part of the British Disease.

However, by the mid–1980s, Maggie Thatcher appeared to be in the process of changing all that with her "enterprise culture." In 1981, she'd created the London Docklands Development Corporation to revitalize the derelict stretches of land downstream from the city. In 1985, some American bankers came up with the idea of building a new financial centre at Canary Wharf, a plot of land set within a bend of the Thames known—now somewhat ironically—as the Isle of Dogs, about 2 1/2 miles east of the Tower of London.

Paul Reichmann took over this already ambitious plan, to build a British Wall Street on the Water, and made it even more ambitious, to build the heart of a whole new third business district in London which would do nothing less than shift the city's gravitational centre.

The deal was not based simply on ego. At the time, following the so-called Big Bang of financial deregulation in 1986, the arteries of the City of London were clogged. Its buildings were badly out of date. Just as he had with the World Financial Centre in New York, Paul Reichmann hoped to create an address by offering top-quality, sophisticated buildings at lower than city rents.

It's easy, with hindsight, to see his miscalculations. First there was a traditional reluctance on the part of financiers to move from the square mile. Second, Paul Reichmann didn't see the implications of a counterattack by the city, which had in fact taken place even before he took over Canary Wharf.

In 1986, the city had relaxed its planning regulations. Although this led to no project as large or spectacular as Canary Wharf, it led to a surge of construction that helped kill the property market when the deep recession—a third factor—hit. Paul Reichmann, like the rest of the world, also failed to foresee the fall of the Berlin Wall and the shift this meant in Europe's financial focus.

The reluctance of business to move to Canary Wharf wasn't just a matter of the Brits being stick-in-the-muds, for the final, and perhaps most devastating, problem with Canary Wharf was its lack of transport infrastructure.

Not only was Paul Reichmann flying in the face of location, location, location, he was engaged in a back-to-front process. He was putting in the buildings before you could get there, presumably believing that, if you built a better building, then the world would beat a subway to your door.

The first phase of Canary Wharf wound up costing more than $3.5 billion. The borrowed element of this money had to be serviced from North American cash flows that from 1990 onwards were being squeezed both by recession and the hefty debt loads they were already carrying.

One might say that Paul Reichmann showed extraordinary skill in keeping all the plates spinning for so long. I believe that he was experiencing considerable pressure for at least a year before the commercial paper problems hit early in 1992.

In retrospect, I think we can trace the beginning of the end back more than three years, to Paul Reichmann's involvement with Robert Campeau. Robert Campeau was another business genius whose personal foibles and insecurities were, nevertheless, hardly a secret. Campeau's takeovers of Allied and Federated stores in the U.S., for a total tab of over $10 billion (U.S.) must surely rank as two of the more bizarre episodes of the 1980s.

Paul Reichmann became involved with Campeau by buying half of Scotia Plaza, then investing more and more, and then way too much, in Campeau's wild ambitions.

When Campeau ran out of cash in the fall of 1989, the bankers raised Hallelujahs when Paul Reichmann stepped in to help with the restructuring. In fact, his involvement was predicated on trying to salvage a disastrous investment. He inevitably failed. His involvement with Campeau not only cost O&Y some $600 million, it angered bankers, who had expected the magic man to pull something out of the hat.

Throughout 1990, Canary Wharf lost momentum. By the time of the Gulf War, it had ground to a halt. From examining documents that have emerged during the negotiations of the past year, it is obvious that O&Y was having trouble with its loans in the fall of 1990 when the Reichmanns put 20 per cent of their U.S. holdings on the market. The problem was: Who would want to buy if the Reichmanns were selling?

I believe that an increasing number of banks, individually, began to express concern throughout 1991. But, of course, when you see your loans to an entity like O&Y going sour, you don t mention it to your banking colleagues. You try to get your money back or increase your collateral.

I find it astonishing, however, that O&Y's true situation should, according to recent press reports, only have become apparent to the majority of its bankers—including its lead Canadian backer—in the spring of last year.

The restructuring seems to have been marked by a comprehensive misreading by Paul Reichmann of his relative power in the affair, a toughness which was all too typical but which, in the end, has led to the family being ousted from the running of O&Y, which is now being kept on life support primarily for its tax losses.

It is perhaps worth mentioning that the Canadian banks were, at the end, far less exposed in relative terms to O&Y than they had been to Dome Petroleum. I'm not sure if this had much to do with learning lessons, however, since one of the fallouts from the near Dome disaster was that restrictions were placed on lending to individual clients.

However, when Paul Reichmann ran out of Canadian bankers, he had no problem in lining up foreign bankers who were consumed both with the Reichmann Myth and real estate fever. Not surprisingly, Japanese banks are more deeply and embarrassingly in hock to the Reichmann Myth than any other national group.

Some posturing continues but the story seems essentially to be over. What's left of the Reichmann Empire apart from a lot more litigation and lawyers fees?

Well, for a start, the assets haven't gone away. The brothers—and here we must drag Albert back into the picture—will remain among the world's great property developers. First Canadian Place, the World Financial Center and even Canary Wharf are embellishments to the cities where they stand.

O&Y's non-real-estate operations, however, have not thrived under Reichmann ownership. The myth of the Reichmanns as patient investors was among the most mythical aspects of their makeup. In fact, as time went on, it appeared that there had never been more impatient investors. The need to squeeze cash from their holdings to meet the demands of Canary Wharf led to myriad complex moves that helped neither corporate morale nor balance sheets.

During the promotion of my book, the media almost always ask: What's next? What will he do now? Will he come back? The questions seem almost symptomatic of the mindset that helped create this problem in the first place: A desire always to be rushing onto the "what's next" without reflecting sufficiently on the past.

Paul Reichmann can obviously never be what he was because, for a start, the environment is no longer conducive. As important, he has not just lost his fortune, he has lost his credit, that nebulous but all-powerful attribute that, as J. P. Morgan said, is ultimately based in perception of character.

What lessons are to be drawn from all this? Nothing that the bankers didn't know already. How could they prevent themselves from doing this again? The answer is that they probably can't. However, I think it might be a good idea to make a thorough grounding in financial history and psychology a prerequisite of every banker's training.

It would be immodest to suggest that my own little tomes should appear on young bankers' reading lists. However, I think that a very old book—written in the 1860s and called *Extraordinary Popular Delusions and the Madness of Crowds*—should be compulsory.

The problem in the end is that experience tends to be the best tutor and the real estate mania which was one of the roots of the O&Y debacle is unlikely to return in such virulent form for many years, perhaps even in our lifetimes.

People often ask what this means for Canadians, how much more we'll have to pay in bank fees or whatever to make up for the losses on O&Y. The answer is that, of course, there will be a cost. I've noticed that on phone-in shows that I have been on recently, some people choose the fall of the Reichmanns as yet another opportunity to berate the whole notion of free enterprise and capitalism, which is where I come to my other recent book, which was about Petro-Canada, entitled *Self-Serve,* and subtitled H*ow Petro-Canada Pumped Canadians Dry.*

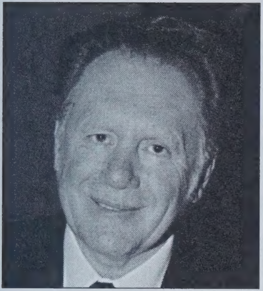
I calculated in that book that if we assume that the government of Canada had borrowed the $6 billion which it pumped into our state oil company, and had to pay an average of 10 per cent on its money, then the amount of national debt now associated with Petro-Can is more than $15 billion, which happens to be around what the Reichmanns, or rather O&Y, wound up owing.

More important, Petro-Can's present worth in the market is less than $2 billion. O&Y, however great the disaster, is worth a great deal more than that. What I am saying is that, in terms of costs to Canada, Petro-Canada is a far bigger disaster than Olympia and York. The difference is that, since its cost is buried in the national debt, we hardly seem to have noticed. The consequences, nevertheless, are creeping up on us.

I make this point to emphasize that, whatever the failings of the so-called free-enterprise capitalist system, they inevitably pale into insignificance beside the shortcomings of public ownership. Moreover, where there are always more unpublicized successes than trumpeted disasters under a free-enterprise system, or what might be more appropriately described in Canada and elsewhere as "fettered capitalism," I can think of no successes of public ownership.

To return finally to the story at a personal level, Paul Reichmann is a tragic figure. Tragic figures in traditional drama are great men with fatal flaws. He was an undoubted business genius but he was, after all, just a man. In his case, the gods destroyed him by giving him, in both the mythological and banking sense, too much credit.

The appreciation of the meeting was expressed by Monty Larkin, Director, The Toronto Arts Council, and a Director, The Empire Club of Canada.



April 1, 1993

His Excellency, Dr. Kalman Kulcsar

Hungarian Ambassador to Canada

NOTHING QUIET ON THE EASTERN FRONT—POST-COMMUNIST EUROPE AND THE NEW HISTORICAL ERA

Chairman: **Robert L. Brooks**
President, The Empire Club of Canada

Introduction

People don't like change, generally, (with today being the exception of course). It is a simple fact. Change confronts us with uncertainty and demands courage in return. We usually prefer to avoid it, but those who face change head on are often those who most succeed.

Today, Hungary is a free country because it faced the challenges of change without flinching. Hungary's drive towards democracy was not easy. It began in 1956 and was a long time coming to fruition. Yet, compared with the chaos which surrounded it, Hungary's transition to freedom has been remarkable for its peace. Hungary found freedom without violence, without bloodshed. Even now as we watch parts of Eastern Europe in the throes of civil war, Hungary remains a stable democracy.

It is the New Hungary that His Excellency, Dr. Kalman Kulcsar, is here today to speak about. Born in Hungary in 1928, he studied law at the Faculty of Law and Political Sciences at the University of Budapest. He received his doctorate in 1968, following which he pursued a distinguished academic career focussing on the field of sociology of law, constitutional law, and political science. To date, he has published 18 books.

Following the free elections of 1990, he was named the Ambassador to Canada of an independent and democratic Hungary.

The great lawyer and politician, William Jennings Bryan, once said: "Destiny is not a matter of chance, it is a matter of choice; it is not a thing to be waited for, it is a thing to be achieved."

Today His Excellency will be speaking to us about Hungary and the New Europe and how his country is coping with the destiny it has chosen. Please join me in welcoming our distinguished ambassador as the speaker today.

Kalman Kulcsar

From Annus Mirabilis to Annus Miserabilis.

The year 1989 was indeed annus mirabilis, the year of miracles, when communism collapsed in Europe. But the last year was indeed annus miserabilis, a miserable horrible year, not only for Queen Elizabeth II, who made this bitter remark watching the fire at Windsor Castle, but much more so for millions of men and women in Bosnia and in many other parts of the former communist world.

The fall of communism and the end of the Cold War brought about the promise of a new era for Eastern Europe, for the lands that were derailed from their natural historical development, from going along the lines of mainstream European civilization, by one of the most tragic social experiments of history.

The almost simultaneous collapse of the authoritarian party-states all over the area, however, gave way to problems of greater complexity than was initially presumed in the phase of general euphoria.

The events of the last three years clearly show that the end of the age characterized by threats posed by communism caught the victors of the Cold War unprepared for the task of post-war reconstruction. In striking contrast, their predecessors in two World Wars made extensive preparations for peace, for the utilization of victory.

At the end of 1989, when the post-Second World War period came to an end and a new era commenced, apart from a few cautious commentators, most Western politicians, and even more the general public, were rather optimistic in taking for granted the easy passage of the eastern half of the European continent into the long coveted Eden of democracy, human rights and market economy.

But by 1993 euphoria gave way to double disappointment: the West is questioning the ability of the peoples of Eastern Europe to make good use of freedom, while Eastern Europeans are voicing their doubts about the seriousness of Western helpfulness. There is also a widespread fear of new risks that threaten not only the former communist countries but the whole Eurasian continent.

The legacy of communism turned out to be much graver than most people had thought. In addition to redundant industries, inefficient management and terrible pollution, all symbolized by the spectre of Chernobyl, the psychological damage was almost crippling.

The average citizen of the former communist countries does not understand what happened to the authoritarian world in which he or she grew up and learned the harsh rules of survival, acquired a distorted idea about right and wrong, and was not taught about sin.

Ignorance about the prerequisites of a well-functioning developed society created unrealistic expectations, a consumerism which leads people to do almost anything in order to obtain the goods which suddenly appear around them in the shops, but which are earned in Western countries only by hard work.

All this makes people frustrated and despondent, and they only too readily put the blame for their present problems on those who try to cure them—on the new, democratically elected leaders and on their foreign supporters.

Today there are some well-founded and very specific fears about Eastern Europe: Internal instability may lead to chaos, anarchy and civil war (perhaps fought with nuclear weapons), poverty and famine may generate mass exodus towards Western Europe, and ethnic strife might develop into nationalist conflicts spilling over the frontiers.

Perhaps the most serious risk is that people in the eastern half of Europe, disappointed in their expectations and feeling that with today's high prices and insecure jobs they are worse off than they were yesterday, could be very easily misled by false prophets who conjure up dangerous old ghosts.

More precisely: Disillusionment with the new age of democracy and the market economy may lead, in these countries, to a desire to go back to the modest safety of the last phase of communism and to accept a return to authoritarian politics. This mood can lead to the rise of aggressive internal and external policies.

Before one cries out in exasperation, it is right to point out that the world has, nevertheless, become a far safer place than it was prior to 1989, that a nuclear world war has become unlikely and that hundreds of millions no longer live in brutal dictatorships. But as Aristotle said, it is easier to be a slave than to be free.

Lenin wrote that the last stage of capitalism was imperialism. In fact, imperialism rather turned out to be the last stage of communism. First Stalin, then in the later phase of communism, the other party bosses, turned to extreme nationalism. Their purpose was to win some measure of popular support and to prolong their control over the people.

I see no greater danger for the new Europe, for the former communist countries, than the combination of the philosophy and strategy of communist dictatorship with intolerant nationalism. There we face a contemporary version of national socialism.

Today, I am not going to talk extensively about all the new risks, about the terrible legacy of communism, about the mistakes made by the G-7 countries in responding to events since 1989, about the urgency of dealing with the economic and mental crisis in the CIS countries, but only about one specific problem—the causes of the nationalist conflicts and the way to handle them.

If one looks at an ethnic map of Central and Eastern Europe, showing the exact composition of the population, including that of the towns, one sees not only a colourful ethnic mosaic, but also a hopeless mix. More than 25 million Russians are to be found outside the Russian Federation, many living with Ukrainians, Kazakhs, Estonians, Latvians, Georgians, etc.

Nations overlap like the Romanians and the Hungarians, with ancient ethnic islands like the Szekelys in Transylvania.

Far from being unique, the jigsaw puzzle in Bosnia has replicas throughout the former Soviet Union, only they are more recent creations. Many towns are inhabited by more than one ethnic group, indeed practically all the countries are multinational, having a substantial number of people whose language and culture differs from that of the majority.

Arnold Toynbee was absolutely right when in 1915 he said that every country has its Ireland and every Ireland has its Ulster.

The roots of this situation are to be found in ancient history, in wars, migrations and the introduction of settlers, and in the industrialization and urbanization pattern of communism. There is a considerable difference between indigenous, historic minorities in Central and Eastern Europe and the recent immigrants to be found in Western Europe and the United States.

In the eastern half of Europe most of the national minorities have a strong sense of collective identity; they are either parts of a nation and have a "mother country" like the Hungarians or are small nations in themselves, like the Tartars and many others in Russia.

The problem is caused not so much by the multi-ethnic nature of the population but by a custom dating back to the 19th Century, when governments started to identify themselves, and the state, increasingly with the dominant ethnic group.

At the end of the First World War, the Habsburg, the Russian and the Ottoman empires broke (some would say were broken) into supposedly uninational states, though in practice most of the new states had national minorities making up one-fourth to one-third of the population.

The ill-treatment of these minorities contributed to the outbreak of the Second World War, was the cause of numerous frontier changes between 1938 and 1947 and pitted many nations of the region against each other. The savage ethnic fighting in the Balkans has a lot to do with the present tragedies.

Despite its pledges, communism failed to do away with the problem of nationalism, it only declared its "solution." Internationalism became increasingly devoid of any real meaning, and communism became increasingly nationalistic, to the detriment of the minorities.

The dissolution of the federal states that failed to win the loyalty of the constituent nations—Yugoslavia, the Soviet Union and Czechoslovakia—was the outcome of the end of dictatorship and was based upon self-determination as the legal background. Though this principle cannot be applied selectively, it is not bound to lead to further disintegration and fragmentation, as it is often feared, in Russia.

Another way of realizing that principle for the ethnic islands, for the national minorities, is self-government, autonomy. There are old models, like the German communities in the towns of Central and Eastern Europe during and after the Middle Ages. The "Saxons" in Transylvania were an especially interesting case.

But there are many promising and well functioning present-day models—Switzerland, Belgium, Spain, the South Tyrol—worth serious study in order to adapt them in the eastern half of the continent. The introduction of democracy on every level, including local self-government, is in line with the principle of subsidiarity emphasized today in the European community: Decisions should be made at the lowest possible level. That is the true spirit of democracy, as seen in the United States.

It should be clear that any trouble over the issue of the national minorities is caused not by their existence, nor their desire to ensure a future for themselves, but rather by states and governments who identify the state with only one, dominant national community.

Now this policy is being pursued often by people whose mentality was molded under communism, who have not been exposed to the tolerance that prevails in Western countries. In many cases, such a policy is a weapon of the old nomenklatura bent on preserving its power by harnessing nationalism and making the minorities scapegoats—very much like the Jews had been scapegoats in many countries in the past.

What the Central and East European minorities want is not separation or a change in borders, but the right to keep their language and culture, to have their children educated in the language of their ancestors, to have local officials—from mayors to policemen—from their own ranks in the village or town. They also want the right to elect their own representatives to local and national assemblies and parliaments. Autonomy and collective rights mean neither more nor less than this.

Current policy towards national minorities in many postcommunist countries is characterized by intolerance and a barely concealed intention to eliminate them by forced assimilation or immigration. In practice, they are often second-class citizens, a fact sometimes expressed even in the Constitution. Slovakia and Romania, for example, do not recognize them as state-forming (constituent) elements. (Hungary follows a different pattern in her Constitution and legislation as well as in everyday practice.)

Discrimination is clearly discernible in many former communist countries where an ambiguous legal system gives large discretionary powers to the executive branch, allowing it to act in an authoritarian way, to the detriment of the minority.

With current policies, the harassment of minorities will remain a source of tension, both internally and externally, especially when the minority has an ethnically-related state beyond the frontier, as in the case of Russians, Hungarians, Serbs, Turks and Armenians.

The creation of homogeneous nation-states would be possible only by organizing an exchange of population on a vast scale, involving tens of millions at enormous financial and psychological cost. Another method is ethnic cleansing as observed in Bosnia and in the occupied parts of Croatia.

It follows from the above that the only real solution for the 50 to 60 million who are national minorities in the states of Central and Eastern Europe is giving them the guarantees they need for a decent life based on equality and a safe future. In addition to specific rights to be included in the constitutions and in the statute-books they need international guarantees.

This is not something new. We saw some attempts during the 18th and 19th centuries and a system of international treaties for their protection was introduced in Central Europe in 1919, monitored and guaranteed by the League of Nations. Though the latter did not eliminate all discrimination it put significant constraints on intolerant practices. It was only due to Stalin's determination to eliminate all outside influence over his empire that the system was dropped following the Second World War.

An all-European code of conduct safeguarding the rights of minorities should be adopted to supplement existing conventions guaranteeing human rights. Much work has already been done toward such a charter. Elements of it can be found in the Charter of Paris of November 1990.

The CSCE conference on the human dimension, held in Copenhagen, has already broken much ground, and the conference in Moscow went a little bit further. The Council of

Europe and its experts have also made serious studies and come up with some excellent ideas.

Governments should not be reluctant to work for such an arrangement and should not be hesitant to sign it. This would be a good preventive measure and its strict application and observance would pre-empt other crises along the lines of Yugoslavia. That is the only way to make the former communist countries safe for democracy.

The appreciation of the meeting was expressed by Bart Mindszenthy, Partner, Mindszenthy & Roberts Communications Counsel, and a Director, The Empire Club of Canada.

April 8, 1993

Janice Moyer

President and CEO, Information Technology Association of Canada

BITS, BYTES AND BOLD STRATEGIES

Chairman: **Robert L. Brooks**
President, The Empire Club of Canada

Introduction

The hobbies of today's guest have a lot in common with her current position as President and CEO of the Information Technology Association of Canada. Janice Moyer swims in her spare time and, during her busy days, she keeps the country's richest high-tech lobbying organization afloat.

ITAC, as the association is known, has a mandate to keep government officials aware of the high-tech industry's needs, while cultivating an awareness of technology among potential customers. Boasting more than 300 institutional members, ITAC and Ms. Moyer have their work cut out for them. Besides waiting for a national telecommunications policy, their efforts include: Addressing the low levels of research and development funding, improving Canada's educational system, as well as boosting the profiles of Canada's fledgling high-tech companies.

Described by colleagues as astute and hard-working as well as a top-notch people motivator, Janice Moyer zig-zagged her way up the hierarchy at IBM from a position of systems engineer to the manager of the biggest branch office. She left IBM to become President of McCormack & Dodge Systems Ltd. in 1988, which later became Dun

& Bradstreet Software Services. And, in 1990, she became president of ITAC.

Ms. Moyer's greatest challenge will be to attract more young people to the growing field of information technology. Her goal is to help Canada jump on the bandwagon of this $40-billion industry by motivating information technology employees to speak at schools and help educators define curriculae. Her dynamism will no doubt dispel the myth of the computer 'nerd' as she leads her industry into the 21st century.

Please join me in welcoming our distinguished guest.

Janice Moyer

Ladies and gentlemen: 75 years ago, someone made a very important prediction about the information technology age at this very Empire Club. In 1916, the first Chairman of the National Research Council was invited to speak to The Empire Club. Professor McCallum told the members that there was a new movement in the world. He said that things would never be the same. In this new world, insisted Professor McCallum:

> *We must employ all the scientific lore that is available today to human kind; apply it to human needs—the shop, the farm and factory and so on.*

He predicted that "information technology"—as it would become known—would be a particular powerhouse. He told the Club seven decades ago:

> *Wireless now girdles the globe; it abbreviates distance, and it is now in the service of mankind. It affects a revolution in the relations, in the connections of all the races on the globe. It is the servant of commerce and industry and everything else.*

And how right he was! Seventy-five years later, we're in the middle of Professor McCallum's revolution. And it's a revolution that is changing our world faster than anything has done before. In this boiling new business environment, fresh opportunities and openings seethe in huge numbers.

The message I'd like to leave you with today is a simple one. It's that we must exploit these new opportunities. We must exploit them because more than 90 per cent of all economic growth is a result of these new opportunities—a result of information technology.

Today, I'm going to talk to you about Bits, Bytes and Bold Business Strategies—how to cope with changing technologies and use them to help your business succeed.

Let's talk about this by focusing on three areas.

First, let's review some of the new technologies. Then, we'll look at the changes they are causing in our business world. And finally, we'll talk about how businesses can benefit from information technology.

Let's start with the new technologies.

All of today's immense technological change is being driven by two factors. One is the huge increase in the power of computers. The other is the equally dramatic increase in the pervasiveness of communications.

Let's look first at computers. The power of computers is increasing exponentially. If you buy a new car this year, you'll find more computer power under its hood than Neil Armstrong had in his Lunar Lander! Computer power is surging because we can cram more and more circuitry into smaller and smaller spaces.

The volume of a computer switch has dropped from the size of a fist in 1940 to that of a finger in 1950, a pencil eraser in 1960, a salt grain in 1970 and a small bacterium in 1980. So where's all this going?

Some visionaries talk about atom-size switches that could put humanlike brainpower on a microchip in our lifetime! No one knows if that can really be done. But the drop in the cost of computing power is great news. Transistors that cost $30, 30 years ago now cost one-five-hundred-millionth of a cent. If the price of cars had dropped as fast, a Rolls Royce wouldn't be worth what it costs to park it in Toronto!

Because they are so inexpensive today, computers are showing up everywhere. Twenty years ago, there were only 50,000 computers in the world. Now, 50,000 computers are sold every day. In fact, 90 per cent of all today's computer users had never even touched one in 1980.

And the number of things not affected by computers is shrinking every day. In fact, I would like to challenge you to tell me how many computers you own. Any guesses out there?

You may not think you have any—but they're so small and cheap that they're hidden everywhere! They're in your VCR, your watch, your kitchen blender. In Canada alone, the number of micro-computers being shipped to meet this demand has sky-rocketed: from just over one million units 10 years ago to 7.5 million units in 1991.

Given this growth in the power and penetration of computers, what about communications? By a not-so-strange coincidence, there's been a parallel technical revolution in the communications network. It's based on the same kind of digital breakthroughs that drove down the price of computers. The cost of "communicating" has plummeted. To go back to the automobile analogy, if the cost of fuel had dropped at the same rate as the cost of communications, you'd be able to buy gas today for two cents a litre. And the fuel would have improved so much in quality that you'd be travelling faster than the speed of sound.

People are scrambling to use this new power. In Canada's portable telephone field alone, the number of subscribers is expected to climb from zero just seven years ago to three million Canadians by the year 2000.

And ease of access to the network will only increase in the future. Looking ahead, mobile "telepoint" phones will soon be available. They will carry digital sound and computer information in a package no bigger than Captain Kirk's communicator on Star Trek. By the year 2000, wristwatch phones could be common, fed by powerful satellites. These direct broadcasting satellites will make the world of digital video information available to anyone with a napkin-size receiver sitting on their window sill.

And fibre optic technology has become so good that something we call "world on a thread" is theoretically possible. In theory, half of the total population of the earth can talk to the other half over a single fibre optic line. Fibre optics is the infrastructure of the future, just as roads were in the past.

So, what changes are these technologies causing in our business world?

This combination of computer power and the accessibility of information are creating a totally new business environment. The result? A number of dramatic changes. For example, we're seeing a radical shift to knowledge-based competition. Knowledge is the raw material of the new economy. It's becoming the most sought-after ingredient for competitive success.

There are signs of its accelerating importance everywhere. World trade is growing two to five times faster in knowledge-intensive industries than in resource-intensive industries. The knowledge industries include software, aerospace, satellites, fibre optics, mobile phones, consulting services, and robotics to name just a few. In fact it's easier to count the industries that aren't knowledge intensive today. And this trend will only accelerate.

Our organizational structures are also being impacted by information technology. It's flattening the organizational structures. Pre-infotech companies were organized with one leader or strategic manager at the top, and a steadily widening base of order-takers. It's a classic pyramid. In the information economy, the organization chart looks like a honeycomb with no obvious hierarchy.

Everyone linked by computers becomes more knowledgeable and capable of decision-making. This kind of organization gives a company immense flexibility, immense speed, and immense power.

A third big change we are seeing as a result of information technology is a surge in networking. In the past 20 years, the volume of phone traffic in North America has increased 30 times. Today's highways are fibre optic and satellite highways—telecommunications highways.

The fourth change brought about by information technology is the skills and abilities needed by employees. Companies now depend on employees with knowledge skills. Employees need the ability to communicate well, be problem solvers, continue to learn for their lifetime.

They must know how to work co-operatively in teams. And they must know how to use the computer as a tool in their jobs, just like the phone or a note pad. A survey of some of the largest American companies found that the more that companies invested in their people, the higher their profits. Training isn't just something that's "nice to do."

It's something that is imperative to a company's survival in the information age. Books like Richard Crawford's *In The Era of Human Capital* say that in the next 10 to 15 years, virtually all employment growth will occur in "knowledge economy" areas.

The fifth change brought about by information technology is globalization. No country is an island. International corporations increasingly operate through knowledge networks. And companies and capital leap through borders. As information technology increasingly squeezes the world's national economies into a single unit, national protectionism will increasingly fail.

These are the effects of information technology on our businesses. The next question then is, how can you benefit from these trends and these new technologies?

The Information Technology Association of Canada, or ITAC, has undertaken a series of studies to help you make the right decisions. Many of these reports are available outside this room. They analyze the growth areas of the information economy. And they show you how to use information technology to "enable" your businesses. ITAC also teamed with the Canadian economist, Nuala Beck, for advice on the new economy.

Beck confirmed that the world, and North America in particular, is in a rapid transition to an information-technology economy.

The older, mass-manufacturing economy ended about a decade ago. The new "information economy" has an entirely different set of leading industries. The information technology economy has four "engines of growth."

One engine is the health and medical sector. Another is instrumentation. Both of these depend heavily on information technology. The other two engines are computers and telecommunications, and all the goods and services that feed into it. Three-quarters of *Business Week*'s 100 fastest-growing companies for 1991 fall within these industry groups.

To benefit in this new economy, Canadian business people should position their companies to take advantage of these engines. There are three ways you can succeed in this economy.

You can become one of the four engines of growth in health care, instrumentation, computers or communications. You can become a supplier to one of the engines.

Or, you can stay in your present business, and use the power of the engines to revitalize it. This is important for all companies, including those that are not high-tech. Many traditional sectors are being galvanized by new techniques. The technology-driven concept of just-in-time manufacturing, for example, has driven up sales of pallets and skids.

This kind of "enablement through information technology," in fact, can rejuvenate any company's process of production. There are no strong or weak sectors in our economy any longer—there are only strong or weak processes within these sectors. And if you want to survive, you need to be the best of breed in the use of technology to improve your business processes.

In 1988, ITAC did a study called *The Enabling Effect.*

It describes how the power of information technology strengthens your business processes. It shows how your business can benefit from information technology investment by moving through the levels of use of technology.

At the most basic level, businesses can use information technology to reduce costs. They want to do more for less. These reductions can be dramatic in areas such as energy use, materials, labour and transportation. When the Vancouver Stock Exchange brought in automated trading, for example, it was able to cut costs. Instead of 50 data-entry people, it needed only four.

After making their initial investment, firms often find that they have leap-frogged to another enabling level. Quality enhancement came into play. Canada Post, for example, introduced bar-code scanners to trace mail through the processing cycle. A side-effect was the ability to make that information available to the public. The public's perception of the organization changed. It is earning a more caring, responsive image.

The next enabling level is the creation of totally new products. These are products that depend on information technology for their existence. For example—a computerized travel reservation systems like Gemini or Sabre—which you have been reading about in the news.

Bell Canada has introduced a telemarketing information system that gives its salesforce immediate access to customer profiles, sales call scripts, and sales and market reports. This information is available on-line, in an integrated package. Using this new tool, the salesforce's productivity has jumped by more than one-third. More important, customers are seeing the company as more available and more responsive.

Climbing higher, we find something of real interest to senior managers. Here, information technology makes possible improvements in strategic management. Decision-making is enhanced as information technology presents facts in new, more comprehensible patterns. The new Pratt and Whitney Canada plant in Halifax, for example, has interconnected all of the manufacturing systems.

Managers oversee the entire operation in real-time. Even the shop-floor staff gets immediate feed-back, turning production teams into product managers. This is an interesting illustration of the humanizing effect of information technology.

The highest level of enablement is concerned with the way information technology can create new ways of thinking. It includes things like Artificial Intelligence. Consider the environmental movement. It owes much of its impact to the modelling tools used to predict pollution damage.

These high-level results will be the most enduring marks left by the Information Revolution. But even at the lower levels, information technology has been called the single greatest factor in determining the success or failure of an enterprise.

Next, we looked at 200 Canadian companies to see if the levels of enablement could be identified and what their impacts were. The results of this study are summarized in *Things Change, Economies Evolve*. We found that organizations used information technology to control costs and improve quality. As well, they used it to create new products, enhance management, and create new operational models for their industries.

Several important lessons emerged from this study.

The first lesson is that information technology, by itself, is not the salvation of an organization. Its impact depends on how well current practices can be rethought. When the Ottawa newspaper *Le Droit* automated its printing processes, for example, it also changed its work environment.

Another lesson is that electronic communications need to be accompanied by new ideas about the movement of information between people. The five Quebec hospitals involved in SIDOCI have created a fully-integrated health-care system. It makes patient information available instantly—in an integrated and paperless way—to doctors, nurses and staff in the format that suits them best.

We also found that better information technology-based communications with suppliers and customers dramatically improved the nature of business relationships.

Union Gas enhanced its customer service by equipping its service vehicles with computer terminals, which streamlined clerical tasks and increased system responsiveness.

Finally, we learned that information technology often leads to more effective workers. General Motors provided its field reps with portable computers, allowing the reps to improve the quality of their interaction with dealers. The system improves market data, speeds the processing of orders, and allows the field rep to work interactively with the dealers.

This last lesson leads into my final thoughts on how you can make the most of these trends caused by information technology. It concerns the most important single investment in the information economy.

Investment in people.

The Canadian economy will suffer severe setbacks in the years ahead unless we upgrade our workforce to compete in a knowledge economy. In fact, I believe we must act quickly if we are to save our nation from becoming an economic has-been.

ITAC has an action blueprint called Investing In People. It proposes radical changes in the way Canadians work. It assesses the challenges that the Canadian economy faces in the years ahead. And it concludes that the creation of a knowledge culture is a national imperative.

Essentially, *Investing In People* shows that we can no longer think of employees as production workers or units of labour. Businesses must empower their employees. They must create a culture of knowledge.

Investing In People reveals that Canada has an under-investment in human resources in comparison with other leading economies. We rank 14th on the productivity scale for industrialized countries, and we have slipped to fifth place in overall competitiveness.

Our outlays for research and development are inadequate—only 1.32 per cent of GDP, well behind the U.S., Japan and Germany. And our spending on education is ineffective—we do not train people with the skills they need to succeed in the information technology economy. And these are the skills that businesses need to survive in the global marketplace.

To transform ourselves to a knowledge economy, Investing In People proposes a multi-point plan.

We call for investment in training to produce a highly-skilled workforce by creating institutions, traditions and policies that will make learning a life-long activity. We call for a flexible workplace that can respond with agility to changing market needs. We call for the involvement of workers in the business. As the real experts, their creativity should be tapped.

Lastly, we call for partnerships among all employees and the company by sharing information about the business—financial successes, performance reports, reorganization plans and the use of information technology.

Partnerships must also be created between business and education if we are to ensure that our young people graduate with the skills needed to secure a high standard of living in the global economy.

The ultimate goal of all this change, in the words of the report, is to "create a pool of the most effective knowledge workers in the world, transforming Canada into an exemplary environment for global investment in knowledge-based work."

We believe that the value of our human capital is the key to our future wealth. The other measures are worth very little without human capital.

Investing In People concludes with a thought that would not have been foreign to Professor McCallum in 1916. I'm sure that most would applaud the sentiment. We say that the ultimate goal of a more competitive Canada is not the profit of a few, but a more equitable and prosperous society for all.

Information technology can help us achieve this. It has immense power for profit and social progress. Professor McCallum was right, 75 years ago.

Information technology is "the servant of commerce and industry and everything else." It is up to the present generation of Empire Club members, business and political leaders to ensure that we use these new powers not only to enhance our prosperity, but also to guarantee our posterity.

Thank you.

The appreciation of the meeting was expressed by Doug Todgham, President and CEO, icomm, and a Director, The Empire Club of Canada.

April 15, 1993

His Excellency Zhang Yijun

Ambassador to Canada, People's Republic of China

THE CURRENT ECONOMIC SITUATION IN CHINA AND OPPORTUNITIES FOR CANADA

Chairman: **Robert L. Brooks**
President, The Empire Club of Canada

Introduction

China is the world's oldest continuing civilization. Today, it is facing an economic revolution that is testing the limits of a very conservative political tradition. Its experience stands in stark contrast to that of Russia. While Russia's dramatic charge towards political reform has produced economic chaos, China's economy seems to grow almost in spite of government controls.

The Chinese word for crisis is composed of two picture-characters: the one meaning "danger" and the other meaning "opportunity." The prospect of China absorbing Hong Kong in 1997 may spell danger to some, but to the Chinese, with their notoriously long-term perspective, the event surely signifies economic opportunity writ large.

Today, we are fortunate to be hearing from a man who can enlighten us first hand with his perspectives on China's economic prospects and its unique opportunities.

Mr. Zhang was born in the Jiang Xi (Yang See) province of China. In 1954, he graduated from the Beijing Foreign Languages Institute and has since had a long, successful career in the service of his country.

From 1954 to 1980, he held numerous posts beginning as a staff member of the Chinese Chargé d'affaires Office in Britain and ending as Deputy Director of the Department of West European Affairs of the Foreign Ministry.

He spent the next five years as a research fellow of the Institute of International Studies, following which he was counsellor of the Department of North American and Oceanian Affairs of the foreign ministry.

In 1987, he became Counsellor and Minister-Counsellor of the Chinese embassy in Britain and, in 1992, was appointed Ambassador of The People's Republic of China to Canada.

Please join me in welcoming our distinguished guest.

Zhang Yijun

I am honoured to be here. Thank you, Mr. Chairman, for inviting me to speak to The Empire Club of Canada and for your introduction a few moments ago. I understand that The Empire Club is one of the most prestigious forums in Canada and has had many distinguished guest speakers from both Canada and other countries. I take it as a privilege to be invited to speak to you on a subject which I hope will be of interest to you.

The theme I would like to discuss with you today is the recent development of China's economy and the prospect of economic co-operation between China and Canada. I choose this theme, because, in relations between two countries of such different cultural backgrounds and so geographically remote the one from the other, economic interests are the main catalysts for mutual contacts, which in turn will lead to mutual understanding and co-operation in other aspects of life.

China is changing and changing fast, thus attracting attention from Canada and the rest of the world. I will try to tell you about what is happening there. But, I would like to make it clear from the very outset that reality in China is fascinating, complicated, and very colourful. By contrast, words to describe this reality can only be pale, grey and incomplete.

The ancient Chinese philosopher Laozi said that man can describe the truth but never the full truth; man can give names to things, but a name is never the real thing. With that in mind, before I speak, I would like to invite every one of you to go to China at your earliest convenience and see things for yourself.

You will then be able to make your own judgment and form your own conclusions. There is a Chinese saying: to hear a hundred times is not as good as to see once.

Competition in the world today is turning from the military and political spheres to the development of the economy, science and technology. China is meeting this challenge head on and has, since 1978, been implementing a policy of reform and openness. For 14 years since then, we have made great progress. In the past decade, the Chinese economy has seen continued rapid growth. The Gross National Product has been growing at an annual rate of nine per cent.

In early 1992, Den Xiaoping, during his inspection tour of South China, made some famous remarks, calling for further emancipation of thinking. He called for an end to the abstract debate over what is capitalist and what is socialist, and put forward three criteria for judging the rights and wrongs of current actions—do they facilitate the development of productive forces, overall national strength and improvement of people's living standards?

These remarks voice the common aspirations and wishes of the Chinese people and provide an opportunity for accelerating reforms, greater openness and yet another phase of fast growth of China's economy.

The GNP for 1992 registered a growth rate of 12.8 per cent. In the fast-growing province of Guangdong, the average growth rate for the past 10 years is about 20 per cent. And in the Special Economic Zone of Shenzhen, which is very close to Hong Kong, just separated by a river, the growth rate was over 30 per cent for more than 10 years consecutively.

Foreign trade also gained new ground. The total amount of imports and exports increased by over 22 per cent, from

US$135.7 billion in 1991 to US$165.63 billion. In that year, China became the 11th largest trading nation in the world.

Foreign investment came in at an increasing pace. Total contractual foreign investment reached US$68.5 billion, actual investment US$18.8 billion, making 1992 the year of largest inflow of foreign investment. There were 40,291 foreign direct investment projects approved by various levels of government last year alone.

The absorption of overseas investment has expanded from the manufacturing field to financial, commercial and other service sectors. For example, Hong Kong businessmen are busily engaged in large-scale real estate development. The Japanese are running some very large shopping centres. And along with some U.S. and Japanese banks, the Royal Bank of Canada has just opened a new branch in Shanghai.

The driving forces behind China's high-speed economic growth are the tremendous consumption and investment demands by the 1.2 billion Chinese people whose basic food and clothing needs are now fully met and expect a decent standard of living.

Last year the Chinese Communist Party held a congress. A congress is held every five years to decide on major policies for the next five years. The central piece of policy resulting from the congress was that China should develop a socialist market economy. This policy has been officially adopted by the Chinese Parliament, the National People's Congress, which met in March, and is now written into the Chinese Constitution.

So this is now the order of the day in China. I am sure that more changes will come as a result of that. Every aspect of life will be affected in the process of developing the market economy.

Figures may be tedious. To give you a better idea of what is happening in the Chinese economy today, I think it may help to tell you a few stories.

I was in Guangdong last November and I travelled on highways, and I had to stop many times on the way to pay the road toll. Guangdong is the first province to have a toll road. It is a totally new idea in China. And I was told that with bridges you can get the money back within two years, and roads within three to four years.

So the Guangdong government has earned a lot of money from those roads and bridges. With the money, they are making big plans to develop highways throughout the province and to build a high-speed railway, something like the bullet train, between Shenzhen and Guangzhou.

I went to the city of Zhuhai, which is on the Macao border. It is separated from Macao by a small river. I could see the buildings of Macao and the people in the streets. Zhuhai didn't exist 10 or 12 years ago. It used to be a tiny village of about a dozen fishermen families. But today it is a very modern city of about 300,000 people, about the size of Victoria. And I think it's a beautiful city that could compare with Victoria. Maybe our friends from Victoria would not agree, but I would invite you to go and have a look first and draw your own conclusion.

In Zhuhai I visited a factory, a small one with 400 to 500 workers making hand sets for telephones and laser records. And I was told that the company was started by six fishermen in the town about seven or eight years ago. They were very poor. So they gave up their boats and wanted to go into business. The business they chose is to buy tape recorders and also some tapes.

Then they copied or reproduced pop songs from Hong Kong. They sold them in China and made a lot of money. They used the money to build factories. At first they started by making boxes for the tapes, and then made the tapes themselves and finally, as I said, started making laser records.

They started with just a few thousand yuan, which is Chinese money, and now, eight years later, they have assets of more than 200 million yuan.

While in Shenzhen, my escort, who is an official in the city's foreign affairs office, told me that about seven or eight years ago he bought the house he lived in, not a very large one, but quite spacious for his family, for about 50,000 Yuan. Today, because of the real estate boom, he estimated his house to be worth more than one million Yuan. So he's very happy.

Last month I visited British Columbia and met a very distinguished leader of that province who had just come back from a visit to China last November. He told me that he had visited a shopping centre, a flashy new shopping centre, in Beijing, and it was very good, every bit as good as a shopping centre in Canada and every bit as expensive. That was not surprising.

The surprising part is that it was originally meant to cater to the foreign residents and tourists in Beijing, but it turned out that most of the shoppers are local Chinese. This shows that more Chinese people have money in their pockets to spend.

I think this could be of some significance to our Canadian friends. Because if there are more wealthy people in China, that would mean a very big market. It was a dream for the British businessmen in the 19th Century, that if every Chinese has his coat an inch longer, that will keep the mills of Lancashire busy. That remained a dream for many years, but today the dream might be coming true.

How long will this fast growth continue in China? How long can we sustain fast growth? I think that China has certainly entered a period of fast growth or economic takeoff and, because of the size of China, the growth will last a long time, maybe three to five decades. The reasons are:

Firstly, if we look at the geographical distribution of growth in China, we find that Guangdong in South China, along the coast, is the centre of fast growth with a growth rate of over 20 per cent. And the economy in the province is still going strong. If you go there you will see that the people are building and building, and Guangdong looks like a construction site. It seems the fast growth will continue for at least 10 years.

If you move further north, you come to Fujian. Fujian repeats the story of Guangdong on a lesser scale. Fujian looks across the Taiwan Strait to Taiwan. A lot of Taiwan businessmen and Taiwan investment are pouring into Fujian.

And if you go further north, you reach Shanghai. For the last 10 years, Shanghai has been doing less in its growth than the national average. But last year it picked up to 14 per cent, two per cent higher than the national average. The area around Shanghai, which is Jiangsu Province, is doing very well. It has always had double digit growth over the last decade. For Jiangsu, the growth is unlike that of Guangdong and Fujian. It has been achieved without outside capital from Hong Kong and Taiwan. It is mainly due to the growth of the rural economic centres, of what we call rural and township industries. In fact, it is a kind of co-operative economy, industrial enterprises which are owned and operated by the farmers, and they are doing very well.

Further to the north is Shandong Province, again a place with a growth rate higher than the national average. Further north along the coast, you cross Tianjin and enter the northeast where the growth rate is less than the national average. But they have great potential because they have a strong industrial base and much greater natural resources.

What is more, the United Nations Development Program has singled out a place in Northeast China, a place called Hunchun, situated at the tip of the Tumen River Delta, as an important growth point of the 21st Century.

That route I have just covered is along the coast from South to North. Another route is from Shanghai up along the Yangtze river to Sichuan. This is a heavily populated area with rich natural resources. Along either of the two routes, there are six or seven provinces each possessing an area and population comparable to that of Guangdong. And beyond that, there are still vast areas in the hinterland with great potential. So all in all, if you look at these factors of geographical distribution, the fast growth will continue for a long time.

The second reason for a long-time sustained fast growth is historical. The Chinese people are very capable people. Given a chance, they can do economic wonders. But ever since the Opium War in 1840, war has never stopped. It's either wars of foreign invasion or civil wars and large-scale social unrest.

Now, China's bad luck seems to be over. Asia now is a good environment with no major conflict in the foreseeable future and fast economic growth. I think the political situation in China will continue to be stable. With the results of the last 10 years, people are happy with the policy of Deng Xiaoping, that is the policy of reform and openness.

It will not be reversible. We are now in a period of both internal and external peace. That is why, since 1978 when the Cultural Revolution ended, we have had such growth. Because we had peace internally and externally.

Now, let me turn to relations between China and Canada.

Since the two countries established diplomatic relations 22 years ago, we have come a long way in expanding good bilateral relations. Now, co-operation exists in almost every area of human endeavour, from meeting the basic needs such as child health care to more academic pursuits like research on Dinosaurs.

In the fields of economic and commercial exchanges, the situation is very encouraging. The 22 years have been marked by a continuous growth of our bilateral trade. It has increased from $161 million in 1970 to $4.5 billion last year, a 28-fold increase. China is now the fifth largest trading partner for Canada. We have good reason to believe that this year will see further increase in our trade.

China's booming economy provides many opportunities for Canada. And Canada has a unique role and a unique opportunity to profit from the development of China's economy.

1. Canada has a political advantage. Canada has never had any colonial legacy or heritage in Asia or in China. The most famous Canadian in China, and perhaps the most

famous foreigner in China, was Dr. Norman Bethune, and he is perceived as a very good man, a hero. Mao Zedong wrote an article in commemoration of him and it was required reading in schools for more than 30 years. That is why almost every Chinese knows about this Canadian. Canada is not perceived as posing any threat to China. Canadian participation in China's economic development will be very much welcome in China.

2. In the Chinese Economy, the priority for a long time to come will be transportation, railways, roads, ports, telecommunications and energy. These are now becoming the bottlenecks constraining the growth of China's economy. Agriculture is also very important. We have been lucky with agriculture so far. But since we have more than one billion people to feed we must take good care of agriculture.

   It so happens that in all these areas Canada has expertise. Canada is well-situated, well placed to co-operate with China. You have experience and expertise that China could profit from and goods that fit China's needs. Considering the nature of the Chinese economy, I believe there are opportunities for almost everybody.

   There are opportunities for co-operation in large projects such as infrastructure and so on. And there are also opportunities for small- and medium-size businesses because we have millions of co-operative or rural enterprises. Some of them are very small, but are very successful. Now they account for more than one-third, about 40 per cent of China's Gross National Product. They are developing and expanding steadily their foothold in the national economy. I suppose every type of technology or investment may be useful to some of them, if you can find the right partner.

3. China's economic reform and the determination to build a socialist market economy has been overwhelmingly supported by the 1.2 billion Chinese people. Reforms have already yielded successes and the people have enjoyed

the benefits. The process of reform is bound to be speeded up and will gain even greater scope and depth in the years ahead.

4. Both China and Canada are countries on the Pacific Rim and members of APEC. The Pacific Rim is now the area with the fastest growing economies in the world. This is good for both countries. It will help Canada, as a trading nation, to lay new emphasis on diversifying its trade patterns, and look more attentively toward the Asian and Pacific region for new trade opportunities.

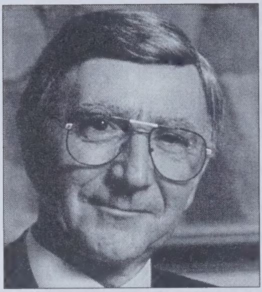
But potential for co-operation can only be translated into reality through hard work by both sides. So far as China is concerned, there is great interest in economic co-operation with Canada. Indeed, as the Ambassador of China, I see it as my task to get Canada more interested in the Asia-Pacific region in general and China in particular. And I think this is also in the best interests of Canada.

I believe Canadians, particularly Canadian businesses, will find it useful and profitable to spend more time and energy in developing relationships with China. Of course there are also risks. There must be some risks in anything you do. But on balance there are many more opportunities than risks. Some two months ago I visited Niagara Falls and I was shown a film. The commentary of the film talks about the history of Niagara. It says: "History begins where the legends die. It was 2,000 years before the whiteman came to Niagara. But they would come. History remembers French explorer Robert Caroye. He was searching for a passage to China when he became snowbound in the Great Lakes in the winter 1678 . . ." and he found the Niagara Falls.

Today in your passage to China, I think you will encounter far fewer risks than that of the French explorer.

Thank you for your attention.

The appreciation of the meeting was expressed by MGen. Bruce J. Legge, Partner, Legge & Legge, and a Past President, The Empire Club of Canada.



April 22, 1993

Walter G. Frehner

Chairman of the Board, Swiss Bank Corporation

SWITZERLAND AND THE EC AFTER THE REJECTION OF THE EUROPEAN ECONOMIC AREA

Chairman: **Robert L. Brooks**
President, The Empire Club of Canada

Introduction

The Swiss are known for their tolerance, their self-reliance and their discipline. Recently, however, they have shown uncharacteristic emotion debating whether they should join the European Economic Area, or the EEA as it's known. On December 6th, they rejected the Maastricht Treaty by a narrow majority of 50.3 per cent. But, of course, they're not alone in having done so and the whole move towards a united Europe is currently somewhat up in the air.

Mr. Walter Frehner has been a banker his whole professional life, in Switzerland and abroad. He has been with Swiss Bank Corporation since 1958 and was appointed chairman this spring. In keeping with the bank's culture, Mr. Frehner holds an expansive outlook. And so he willingly placed himself in the midst of the fray by advocating that Switzerland sign the treaty to join the EEA.

He believes the Swiss would have gained substantially in the long run from the free movement of goods, services and people. This added freedom, he believes, would have allowed them to take advantage of a borderless Europe while still maintaining their characteristic autonomy.

Mr. Frehner is not satisfied with a Switzerland that consists only of hotels, banks and holding companies. Instead he's partial to the old saying: "Dissatisfaction is the basis of progress. When we become satisfied we become obsolete."

Ladies and gentlemen, please join me in welcoming Walter Frehner who will comment on how he sees Europe and Switzerland evolving both politically and economically in the medium term.

Walter Frehner

It may be a peculiar way of regarding a landlocked country, but the Swiss have come to see Switzerland very frequently as an "island." For decades our country has indeed been "outstanding" like an island, in terms of wealth, political stability, low inflation, low interest rates and a strong currency.

Last year we decided to become an island in yet another sense: on December 6th, 1992, in a nationwide referendum, the Swiss population turned down membership of the European Economic Area. As a result, we are now the only European country—even the neighbouring tiny principality of Liechtenstein will join—that will not participate in the European single market.

For many years, the notion of Switzerland being an island had a distinctly favourable undertone. Now it has picked up a negative flavour: Switzerland as an isolationist country. This is the subject of my address today, ladies and gentlemen: Switzerland's rejection of the European Economic Area and how Swiss politics has since reacted to avoid the threat of political and economic isolation.

Of course, if the Swiss really were so unique, there would be little foreigners could learn from our experiences. Clearly, every citizen tends to regard his or her home country as singular. However, on closer reflection we find that the challenges we meet at home differ not all that much from those we meet abroad.

The similarities between Switzerland and Canada, for example, may not be obvious at first sight, but nevertheless are numerous. Both countries depend culturally, politically and economically on large neighbours. Canada on the USA, Switzerland on the EC. Both countries are very prosperous—in terms of per-capita income, they come second only to the United States.

But while the level of prosperity is high, there is widespread concern about a growing lack of economic dynamism both in Canada and in Switzerland in comparison to other nations. In short, we are afraid of losing our lead. Notwithstanding the enormous difference in geographic dimensions, both countries can be termed relatively small economies, crucially dependent on excellent access to international markets.

This is why leading politicians and businessmen in both countries keep urging the removal of the barriers to their most important trading partners, the United States for Canada, the EC for Switzerland. Hence their support for participation in NAFTA and in the European Economic Area, respectively. The European Economic Area, which for convenience I shall refer to as the EEA, is designed, in short, to extend the EC's single market to the area of all EC and EFTA member states.

Tariffs had, in principle, been long removed in European trade, within the trade blocs EC and EFTA themselves, as well as between the EC and the EFTA member states on the basis of free trade treaties. The EEA will go further and remove all non-tariff barriers to trade in goods and services. To achieve this, the EFTA countries had to adopt the relevant EC directives and the principle of mutual recognition of rules and regulations that governs the EC's single market.

Trade in agricultural products is, however, exempt from the EEA Treaty; also EFTA members do not need to take over EC tax law and can retain autonomy in their trade policy vis-a-vis third nations.

As you know, the Swiss electorate turned down the EEA. Canadians cannot themselves neglect the possibility that NAFTA, too, could fail—either because ratification in the USA, or in Canada, is not forthcoming. Therefore, the way we have reacted in Swiss politics after the rejection of the EEA may hold some potentially interesting pointers for Canada.

Why did Switzerland say No? There were various reasons. The principal political reason was a fear of losing our national identity by yielding parts of sovereignty to an "anonymous giant" in the shape of the EC. More specific was the fear of further immigration, in a country in which the proportion of foreigners is already very high—19 per cent of the resident population.

The issue of increased immigration is linked to the economic concerns of the broader population: the fear of increased competition, of pressure on wages and even of losing one's job. These are core problems in all matters of international economic integration.

The evidence may overwhelmingly suggest that furthering world trade will always result in stronger economic growth, but an expansion in trade inevitably also leads to structural change. The overall impact of trade liberalization is undoubtedly positive for virtually any country. In Switzerland, the EEA was estimated to bring about a long-term impulse of between four per cent and eight per cent in additional Gross Domestic Product.

However, there are always bound to be winners and losers in any process of economic integration. In times of recession and rapidly rising unemployment, the individual voter naturally tends to weigh the perceived economic risks more heavily than the opportunities. Recession provides a stony soil for international integration policies, a phenomenon we are not only witnessing in Switzerland, but in all of Europe.

The pro-European enthusiasm of leading politicians and businessmen was not shared by the wider public. Yet the rejection of the EEA Treaty in Switzerland was by no means overwhelming—50.3 per cent No votes against 49.7 per cent Yes.

If we remember the narrow outcomes of last year's Danish and French referendums on the Maastricht Treaty, the voting behaviour of the Swiss appears to be very European indeed. As in other European countries, the European issue split the Swiss nation. Cities and industrial regions accepted; rural regions strongly rejected the Treaty.

Unfortunately, the nation was also split along the language frontier: francophone Switzerland came out in favour with a strong majority, whereas the Swiss Germans rejected the Treaty. Although the nation is by no means falling apart, this rift has definitely hurt and Switzerland will have to devote care not to deepen the split further.

Even if the rejection of the EEA Treaty was so narrow, a simple repeat vote, as in Denmark, is not an option for Switzerland, at least not for the time being. We have to contend with the constitutional barrier that the referendum not only needs the consent of the majority of the population but also of the Cantons—16 out of 23 of which rejected the Treaty.

Participation in the EEA, which would have signalled a great leap forward in our external relations, thus appears barred by our constitutional system for the time being. Switzerland will, therefore, now have to resort to reforms in domestic policy in order to improve the conditions for our position in the world economy.

But what can changes in domestic policy achieve in a matter that essentially concerns our external relations? First of all we must remember the ultimate benefit of free trade: it increases competition, and competition, be it international or domestic, tends to interfere with entrenched habits and snug economic arrangements which provide guaranteed benefits to those that do not necessarily deserve them.

It is interesting to note that a report on the economic consequences of Swiss integration into the European market saw the main benefits arising from induced reforms such as public procurement policies, decartelization and the reform of the Swiss immigration law. These are purely domestic policy issues in the sense that laws or practices can be changed autonomously, without the need for any international agreements.

Quite swiftly after the referendum on the EEA the Federal Council, our government, began work on a scheme to strengthen the economy, the so-called Revitalization Program, which contains reforms in the areas I just mentioned. Public procurement practices, for example, are a particularly thorny issue in a country where the Cantons, and even communities, at times follow very restrictive rules for public orders and purchases.

The Confederation is quite prepared to open its procurement to foreign bidding, but the position of many Cantons is ambiguous. Other inter-Cantonal restrictions on the free movement, especially of labour and services, have also persisted, for example in the recognition of diplomas.

In a wider sense, the issue really is that a true internal market does not yet exist within Switzerland itself. Similar restrictions on trade exist between the Canadian provinces. On the eve of the birth of NAFTA, the first thing to ensure is also a true Canadian internal market, an additional parallel between our two countries.

Switzerland has gained a reputation as the most cartelized economy in the Western world. The EEA, per-se, would not have forced change in our anti-trust law, it merely ruled out discrimination against competitors from EEA countries on the Swiss market. This means that cartelist practices would have been even more difficult to sustain than they already are today.

Here a word in defence of Switzerland's undeserved reputation as a country of cartels: first of all, Switzerland is an export-oriented economy. Therefore, the bulk of our industry cannot protect itself by cartelist arrangements simply because it is exposed to competitive forces that originate from outside Swiss jurisdiction. Cartels in Switzerland have always been restricted to the purely non-trading sectors of our economy.

However, as every student of economics knows, cartels are by nature unstable. This has, for example, been the experience in Swiss banking. Competition was officially prescribed for Swiss banks in 1990 by a verdict of the Federal Cartel Commission, but in fact competition had become very intense years before, particularly as the rapid change in the financial markets had the effect of undermining many formal arrangements.

The pressure from renegade competitors has led to the phasing out of many other arrangements, for example in the beer and cement industries as well as in an increasing part of the distributive trades. The Revitalization Program will bring about a more restrictive anti-trust law in Switzerland, but notwithstanding, the heyday of cartels in Switzerland is long over.

An area where we feel an urgent need for change is the Swiss foreign labour law. Through a complex set of rules and practices it has, for decades, favoured the immigration of unskilled labour, which is an anachronism in high-wage Switzerland. The shortage of labour was very acute in all areas during the boom years at the end of the 80s.

In general, the situation has been reversed, with growing unemployment, but for a number of professions the shortages remain chronic. Switzerland and the Swiss labour market are simply too narrow for the adequate recruitment of specialists. The free movement of labour is one of the so-called “four liberties” in the European single market and is hence part of the EEA Treaty. As this implied the removal of all restrictions on the immigration from EEA countries into Switzerland, even tighter restrictions on non-European immigration would have been inevitable.

Although the EEA has been turned down, the intention to change our foreign labour law will be upheld. Our non-participation in the EEA would even allow for less discrimination between working permits for citizens of European and of other OECD countries.

Switzerland has always been a significant location for overseas corporations and North Americans, in particular, have repeatedly complained about the difficulties of relocating top personnel to Switzerland. Also, from the viewpoint of my institution with its worldwide—not only European—activities, the ability to move staff members on a reciprocal basis is essential. Personally, I would therefore very much welcome a more pragmatic approach to immigration in Switzerland.

The thrust of changes in domestic politics is very important for our economy. Such reforms can, however, never ensure the benefit which an international treaty such as the EEA provides: namely the discrimination-free access to foreign markets so indispensable for the prosperity of a small economy like Switzerland's. Domestic policy can never replace external policy.

I do not rule out that one day, in a future not too far removed, the Swiss will vote again on the EEA, even on full EC membership. But for the time being this is not an option. We will have to resort to bilateral negotiations with the EC in order to achieve step-by-step improvements in our relations with the Community. We can be well satisfied with our achievements in the past. For the record, Switzerland is the country with the densest network of Treaties with the EC, the most important being the 1972 Free Trade Agreement, the most recent, the Insurance Treaty.

However, the leeway for further negotiations with the EC is not large. The EEA was a well-balanced framework of benefits and concessions for all contracting states. The EC has always been very anxious to avoid entry to the internal market "through the back door." Immediately after the EEA vote the federal government began to explore possible areas for bilateral negotiations with the EC. It soon became evident that the Community's readiness to open talks is strictly limited.

The implementation of the EEA itself will be delayed, to some extent a result of non-ratification by Switzerland. Furthermore, the Community appears to be in a state of general crisis with its decision-making capacity severely constrained. This gives us some respite in Switzerland.

On the other hand, the EC has indicated that it would only contemplate its further relations with Switzerland on the basis of a firmly implemented EEA. In other words, there will be little movement in Swiss-EC relations in the near future. Optimum access to the markets of the EEA is indispensable for our economy—65 per cent of our exports flow into this area.

Yet Switzerland has always had a tradition of trade links throughout the world, much stronger than most other European countries of similar size. The setback to our European integration policy is an opportunity to strengthen our worldwide economic links. Free trade treaties are now being signed with most Eastern European states, the last will be completed by mid-1993. Their markets are of little significance for Swiss external trade today, but the economic potential of at least some of these countries is large.

Even more important for Switzerland will be the progress of the GATT negotiations. Our traditional position on agricultural policy would have been the major obstacle on our own side against an extension of the GATT Treaty. Historically, the degree of protection for the Swiss farming sector has been among the highest worldwide.

However, we are now changing our agricultural policy towards direct compensation of our farmers. We will thus be able to remove our trade barriers without threatening the economic existence of Swiss agriculture. Such an approach would conform to the latest GATT proposals and, therefore, Switzerland strongly supports the swift finalization of the GATT negotiations. Canada, though belonging to the Cairns group, is pursuing a similar approach to support parts of its farming community. Indeed, in many areas of the GATT negotiations the Canadian and Swiss position has been identical. Concerning trade in financial services in particular, our negotiators even worked together very closely.

Generally speaking, Switzerland and Canada are faced with the same challenge on the international level. We are not bound in a framework in which we have yielded the right of negotiations with third countries, as the EC members have. Neither are we satisfied with focusing our economic relations on one region of the world only, be it Europe or North America. Therefore as long as we have the freedom to speak with our own voice and to shape our worldwide economic relations we should make the most of this liberty.

This leaves me to conclude that a main difference between our countries is that we Swiss have decided, negatively, on the European Economic Area, whereas the fate of NAFTA is still in the balance. With a general election looming, Canadians must be aware of how easily an international treaty like the EEA or NAFTA can fall prey to vote-winning populism.

I personally felt the rejection of the EEA as a big setback for Switzerland. Certainly, I do not believe the outcome of the vote was the last word on Swiss relations with the EC. We must, therefore, continue to fight for popular support for a policy of European as well as international integration.

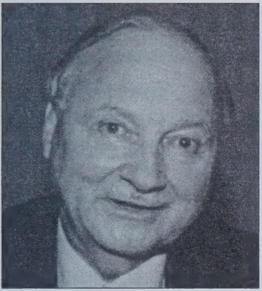
For the time being, though, Switzerland is "going it alone." This is regrettable, but not wholly disadvantageous. We are now embarking on a policy—the Revitalisation Program—to improve our economic conditions autonomously.

Though the pace of political change is slow in my country—far too tedious for my liking—at least the need for reform is now widely accepted, even among those parties and groupings that were against the EEA.

Like Canada, we are not (yet) absorbed in a common market. We have not yet surrendered substantial parts of our jurisdiction into the hands of a supranational body. This means we cannot rely on impulses from "above" to the extent many EC members have done with their single-market program.

In other words, we shall have to struggle through on our own. But this may have one further advantage: it may help us maintain the level of alertness we need to create the right conditions for assuring our long-term place in the world's top-tier group of prosperous nations.

The appreciation of the meeting was expressed by Maureen Sabia, Chairman, Export Development Corporation, and a Past Director, The Empire Club of Canada.



April 23, 1993

A joint meeting of
The Empire Club of Canada
and The Canadian Club of
Toronto

The Hon. Maurice F. Strong

Chairman & CEO, Ontario Hydro

RE-ENERGIZING ONTARIO

Chairman: **Robert L. Brooks**
President, The Empire Club of Canada

Introduction

It is no small task to introduce someone whose life in the private and public sector reads like that of the hero in James Clavell's novel Tai Pan.

Maurice Strong left his home in Oak Lake, Manitoba, at the age of 14 to work on ships and ended up prospecting in the Northwest. At the age of 21 he helped create Dome Exploration. At 35, he had been President of Power Corporation. At 39, he was the partner of Paul Nathanson, a Canadian movie-distribution mogul. And at 46, he helped build Petro-Canada and was its first president and chairman.

He is probably best known to the public for his involvement in environmental issues.

In 1972 he was Secretary General of the first United-Nations-sponsored conference on the environment held in Stockholm. Twenty years later he revisited that role at the Earth Summit in Rio de Janeiro. He created the UN Environment Program and ran the office charged with addressing the 1985 famines in Africa.

I remember reading an article about him sometime last spring. The lead began with a story told by a young Danish woman about the time she introduced herself to Mr. Strong at a party in Manhattan. "I've heard two stories about you," she told him. "One that you're a genius, and the other that you're a fake." Ten years later she must have come to some conclusion because she married him.

I suspect Bob Rae reached a similar conclusion when he appointed Mr. Strong Chairman of Ontario Hydro last fall. The challenges facing that company seem staggering when one considers that its mountain of debt exceeds that of several countries. Certainly Mr. Strong's initiatives of the past few weeks suggest that he has firmly grasped that mettle. Perhaps there is something in a name.

Ladies and gentlemen please join me in welcoming our distinguished guest, Maurice Strong.

Maurice Strong

I am delighted to have the opportunity of returning to this important forum and to share with you some of my own thoughts concerning the dilemma confronting Ontario and Canada today and the relevance of this to the challenging task in which my colleagues and I are now engaged in the remaking of Ontario Hydro.

When I decided to return to Canada last fall following completion of my latest UN assignment, many of my friends asked me if I was retreating from my long-standing international interests. It is quite the contrary, in my view. What is happening in Canada today is both reflective of, and deeply relevant to, the processes of rapid and fundamental change that are reshaping our global civilization.

Our response to these processes of change will not only determine the place of Canada in this new global society; it will also determine the quality of the future we bequeath to the generations of Ontarians and other Canadians who follow us. For that future will largely be a product of the decisions and directions that we take in this, the final decade of the 20th Century.

Canadians are not an aggressively nationalistic people. Perhaps this is a weakness when we are striving to forge a new basis for national unity. But it is, in another sense, a very positive attribute, because we are also one of the world's most international nations—in the composition of our population, in our outlook and outreach, as well as in our dependence on the world economy.

What happens in Ontario matters to Canada, and indeed will be decisive to Canada's future. What happens in Canada will have a more important impact on the world community than most Canadians realize. For although we are relatively small in numbers we have custody of one of the largest and most richly endowed pieces of the earth's environment, and how we manage it will have a profoundly important effect on the global environmental future.

As the Earth Summit at Rio de Janeiro last summer made clear, our present patterns of production and consumption are not sustainable. We are now caught up in a turbulent process of adjustment in which we must learn to cope with a whole new generation of challenges. Divisions between rich and poor are deepening, domestically and internationally.

Growing numbers of distressed and dispossessed people are seeking refuge in countries like ours, whose borders are closing to them. Governments face continuing crises as they reach the limits of their capacity to meet the needs and aspirations of their people.

It is tempting to be pessimistic in the face of these daunting challenges. But pessimism would be self-fulfilling. Operationally, I am an optimist. I not only believe that we can deal with these problems, but that they open up an exciting new array of options and opportunities.

Canada is not immune to these changes that are recasting the nature of the modern nation state. And let us make no mistake, Canada is one of those cases in which the whole is clearly greater than the sum of its individual parts. We would all be diminished by its demise.

A failed Canada would be a significant blow to the prospect for a viable new world order—and a profound disappointment to a world which has long assumed that the Canada that has done so much to help deal with world problems can certainly resolve the problems it has at home.

It is in this broad context that I see the critically important role of Ontario in reshaping and revitalizing Canadian nationhood and the contribution that Ontario Hydro can make to this process. Ontario Hydro is, after all, the biggest single corporate enterprise in Ontario and one of the largest in the country. Ontario Hydro's role and its history are inseparable from that of the growth of Ontario and it has a vitally important role to play now in re-energizing Ontario's economy and refashioning its future.

What Ontario Hydro does matters to Ontario. Ontario Hydro is not an autonomous entity that exists to serve its own corporate purposes. It is an integral and indispensable part of Ontario society and it exists to serve that society. That is why I attach such importance to the formidable task we now face of building the new Ontario Hydro.

Spiralling rates and debt have produced an unprecedented crisis of confidence in Ontario Hydro, particularly at a time when the Ontario economy is reeling from the most severe recession since the Great Depression of the 1930s. But this should not obscure the fact that many of the elements which have made Hydro such a great organization and a primary engine of the Ontario economy in the past give it a unique capacity to make a major contribution to the indispensable task we now face of revitalizing and remoulding our economy.

The single most important impression I have had since coming to Hydro is of the exceptionally high quality of its people. Today, shocked and sobered by the surge of criticism to which they have been subjected, they are, nevertheless, rising to the challenge of the changes which they know we must make.

The quality of our facilities, of our service, and our record for reliability and safety have won for Ontario Hydro an esteem and a reputation that is second to none amongst world utilities. One does not need to criticize the past to acknowledge that what enabled Hydro to serve Ontario well in the past will not be sufficient to enable the Corporation to contribute to the same extent to the much more complex, diverse and dynamic processes that are shaping the new Ontario economy.

The measures our hard working Board of Directors has approved at its two most recent meetings are designed to address our most immediate and urgent priorities—to call a halt to rate increases and the growth of our debt. And we have embarked on a program designed to reduce the debt by about $13 billion over the next 10 years.

This is to be achieved by a massive program of cost reductions. Already, we have identified capital expenditure cuts of up to $23 billion and we have initiated cuts in our operating maintenance and administrative costs which will average more than $1 billion per year for the remainder of the decade. An unfortunate but inevitable consequence of this has been the need to reduce our workforce by some 6,000 people, which will bring it back to the levels of 1987.

The reductions will occur, primarily on a voluntary basis, from top to bottom throughout the Corporation. Indeed senior and middle level management will be reduced to a greater extent than our total workforce. Half of our vice-presidents will be leaving, most of whom have long periods of service and have made distinguished contributions to the Corporation.

There will be substantial, one-time costs of implementing this program. In line with the normal practice of the private sector, these costs will be charged against this year's accounts, giving rise to a deficit of some $1.3 billion for 1993. However, these costs have a relatively quick payout and represent a necessary, and a sound investment in our future.

All of this is being accomplished through a major program of restructuring following recommendations of the largely internal task force chaired by one of Canada's ablest and most experienced management consultants, John Wilson. I'm sure most of you have read media reports about our proposed reorganization, so I will re-cap only a few highlights.

The restructuring will consolidate Hydro's primary operations and activities into three major components—the Electricity Group, Energy Services and the Environment, and a Hydro Enterprises group. Each will have a high degree of operating and administrative autonomy and will be responsible and accountable to meet bottom-line returns and performance requirements.

The objective is to move responsibility and accountability down into the organization to the levels at which they are closest to the customer and can be most effective. It will bring to the organization a new generation of leadership and give people throughout Hydro the opportunity to take on new responsibilities and opportunities.

These changes are all designed not only to address the immediate problems of rates and debt, but to establish the foundation for a new Hydro that will be leaner, cleaner, more business-like, market oriented, competitive and responsive to the needs and interests of its customers. After all, our raison d'être is to serve the needs of our customers and the Ontario economy.

Ontario Hydro's unsurpassed expertise and reputation will provide us with a great opportunity to respond to the growing international market for its services. We are thus expanding our international outreach and incorporating a new subsidiary, Ontario Hydro International, for this purpose.

We are also incorporating a new subsidiary, O.H. Technology, Inc., to make more profitable use of the extensive research, development and technological capacities of Ontario Hydro. This new corporation, which will work closely with the private sector, can make an important contribution to revitalizing Ontario's economy and establishing for Ontario a competitive advantage in technology-based industry.

The measures we have introduced respond to the immediate priorities Premier Bob Rae defined for me when he invited me to become Chairman of Ontario Hydro and I am grateful for the support and guidance we have received from him and the Honourable Bud Wildman, Minister of Energy and the Environment, to whom we are responsible, and their government. I want to say, too, how much we have appreciated the constructive support of the two opposition parties for the measures we have undertaken.

Let me also acknowledge our deep gratitude to the principal unions who represent our employees, CUPE and the Society of Management and Professional Employees, to our partners in the Municipal Electric Association and other key stakeholders for their advice and support.

As you know, we have also received an immense amount of helpful information, advice and guidance from the hearings of the Ontario Energy Board and the Environmental Assessment Board. In a very real sense, the changes we are in the process of making, represent our response to this invaluable process and the wise counsel which flows from it.

The changes we have initiated to date all come within the mandate and authority of Ontario Hydro. We have also begun a dialogue on other key issues that are basic to the future of the new Hydro, issues that can only be decided through the political process.

Some of the issues are fundamental to the future of Ontario Hydro and to the economy of the province. They include basic questions as to the nature of the relationship between Ontario Hydro and the government, as well as its relationship with the municipal electric utilities which were largely responsible for its creation and are Hydro's partners and principal customers as part of the province-wide electric power system.

Some of these questions are:

- Should Hydro continue to set its own rates and those of the municipal electrical utilities or should these functions be performed by the Ontario Energy Board?
- To what degree should the market for electricity be opened up to competition in light of the fact that if the

Ontario economy is to be competitive, electricity prices must be competitive?

- How can this best be done without unnecessary impairment of the major investment Ontarians have in Ontario Hydro?
- What is the optimum mix of energy sources on which we should rely for our future electricity supplies? And what are the most promising alternatives to current sources?
- How much should we continue to depend on nuclear, how much on fossil fuels, how much on our own generation and how much from private, non-utility generators? And how should these decisions be made?

It is not for me to decide these issues. But let me make a few comments on some of the principles and considerations that I believe should guide these decisions and some of the things we are already doing at Ontario Hydro which bear on them.

Of particular importance is the question of how best to reconcile our energy needs with our environmental and social requirements and aspirations. Indeed this issue is of central importance, both for the future of our economy and the kind and quality of life which succeeding generations of Ontarians will enjoy.

In pursuance of the policies of the government we serve we have made a strong corporate commitment to leadership in protection and improvement of the environment through sustainable development. Our Board of Directors at its last meeting agreed to reformulate the mission of Ontario Hydro to "help Ontario become a world leader in developing an energy efficient and competitive economy and a leading example of sustainable development."

The evidence assembled for the Earth Summit made clear that if our civilization is to survive we must make fundamental changes in our economic behaviour and change course to a new pathway that will be more secure, more sustainable and more promising in economic as well as environmental, social and security terms.

It also made abundantly clear that the new generation of economic opportunity will be environment driven, as the Japanese have been among the earliest to appreciate. Energy is at the centre of this transition. And energy efficiency is an indispensable ingredient of an efficient, competitive economy.

Thus it is only sensible and responsible for us to help our customers improve their competitiveness by becoming more energy-efficient, even at a time when we have a substantial surplus of supply. But at the same time society must eventually recognize that energy prices still do not reflect its true costs. It is fully consistent with market economy principles that the full costs of developing, producing, distributing and using energy be incorporated in its price structure.

We intend to implement this principle of full cost accounting at Ontario Hydro as a guide to our own policy and decision making, although clearly it cannot be applied to setting our rates until the society as a whole is ready to do this.

In light of our current surplus capacity, which we project will continue for the next 10 years, Ontario Hydro cannot commit to developing new capacity, to extending existing capacity by retubing the Bruce A reactors, or purchasing new supplies from non-utility generators at a time when we don't need the power. To do so would result in unnecessary rate increases at a time when our customers can least afford them.

On the issue of privatization, I would only say at this point that I see it as a means, not as an end in itself. In my view the real test of the efficacy of private ownership of all or any part of Ontario Hydro will be the degree to which this would ensure that the interests of its customers and of Ontario would be better served.

In the meantime we need not wait, and are not waiting, for the outcome of this dialogue to ensure that Hydro is appropriately structured and that it functions and is accountable in accordance with business standards.

In Hydro's relationship with the government of Ontario, one of the most important elements is the government guarantee of our debt. At a time when the province's own debt is mounting, it may be desirable to re-examine the extent to which the province's guarantee of Ontario Hydro's debt is still necessary.

I might note in this respect that we are, as part of the current restructuring process, re-evaluating our assets and allocating our debt within the Corporation to the assets for which it was incurred.

Another area in which we are already taking action is to put our relationships with the native communities in which we operate on a more sound, fair and equitable basis, redressing past grievances and establishing new co-operative programs and activities with them on the basis of true partnership.

My own view of the future of Ontario Hydro is based on the premise that Ontario is an integral part of a global economy that is becoming increasingly interdependent, competitive and subject to rapid, continuing change. Its driving forces are capital and knowledge applied through technology, design, marketing and management. And its parameters will be established by the environmental limits necessary to ensure our survival and maintenance of the quality of life to which we aspire.

In this context Ontario Hydro must become a more active and dynamic participant in the Ontario economy, more flexible and market sensitive. It must not only be more responsive to the processes of rapid change shaping our economy but a leading agent of change. This means it must become less monolithic, less monopolistic, more decentralized and competitive—a primary factor in the market economy of Ontario rather than merely a part of the apparatus of government.

All of this means that the new Ontario Hydro will be very different from the Ontario Hydro you have come to know—a

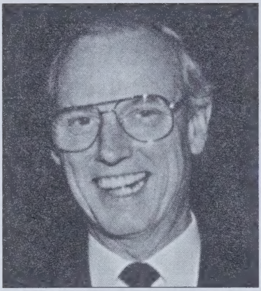
Hydro that is the lynch-pin of a new, exciting and more promising Ontario economy. The steps we have already taken have set established foundations for these changes and have already set a new direction for Hydro.

But only through the political process can the fundamental decisions be taken that will ultimately determine the shape and nature of the new Hydro. These decisions cannot long be delayed and I hope, and expect, that the government will soon be able to consider and choose amongst a range of options now being developed as a result of the growing public dialogue now taking place on these issues.

Changes of the magnitude I have been describing require tough decisions. And we have made those decisions. But decisions alone will not accomplish these changes. Building the new Ontario Hydro will be neither quick nor easy. It will require the sustained commitment and efforts of all Hydro staff, the continued guidance and support of government and the advice and support of stakeholders, customers and the public.

I am encouraged by the response to the steps we have already taken and am confident that they have launched us decisively on the pathway to a promising new era for Ontario Hydro.

The appreciation of the meeting was expressed by Isabel Bassett, President, The Canadian Club of Toronto.



April 29, 1993

Robert Kearney

President and CEO, Bell Canada

THE BUILDING BLOCKS OF A STRONG CANADIAN TELECOMMUNICATIONS INDUSTRY

Chairman: **Robert L. Brooks**
President, The Empire Club of Canada

Introduction

Competition in the telecommunications industry has arrived in Canada. Last June, the CRTC deregulated Canadian long-distance telephone service and will decide later this year on how much further it is willing to open the market. If today's guest has anything to do with it, there will be a telecommunications free-for-all, with Bell Canada leading the pack.

Mr. Robert Kearney, Bell Canada's President and CEO, hails from Northern Ireland. As a computer expert who has been associated with Bell companies his entire working life, he is firmly committed to allowing what he calls "natural markets" to set prices competitively. We should not let Mr. Kearney's relaxed demeanour fool us. Under his calm exterior lies a man who will be devoting all his energy to advancing his cause with the CRTC.

His ambition is to transform Bell's corporate culture by firmly making customers No. 1. And, to ensure Bell Canada will "be the leader in moving any information, to anyone, anywhere" he is spinning off parts of the utility into autonomous but wholly-owned subsidiaries—strategic business units. These SBUs, as they're known, are freed from hierarchy and can nimbly enter and exit niche markets to conserve costs and exploit opportunities for the parent company. At a time when small is increasingly beautiful, this is the kind of innovation that will ensure Bell's bottom line stays big.

As the climate in telecommunications policy changes, Robert Kearney is forging ahead with his winning attitude. As CEO of a company which has encouraged Canadians for years to "let their fingers do the walking," he is now optimistically inviting customers to vote with their feet as they join in the Bell parade.

Please join me in welcoming our distinguished guest, Robert Kearney.

Robert Kearney

Mr. President, head-table guests, ladies and gentlemen. I'm pleased to be here today to speak with you, members and friends of The Empire Club of Canada, about issues that concern us all. I can think of no better forum than The Empire Club to discuss the importance of telecommunications to our country's future.

Throughout this century, Canadians have responded to the challenge of communicating across the distances and terrain of this rugged country. Today we are world leaders in communications.

But we have some critical choices to make if we are to maintain and improve our position of world leadership. It is no exaggeration to say that Canada now has one of the most open telecommunications markets in the world.

The problem is that trying to determine the future for Canada in the global game today is like working with a jigsaw puzzle, without having the picture as a guide. We simply do not have an overall Canadian vision for our industry, yet we need to see the picture if we're going to succeed.

And time is short. It is a feature of today's world in general, and telecommunications in particular, that the pace of change is accelerating. If you are last out of the gate you may never catch up.

I believe the sovereignty of Canadian telecommunications is at stake. Hence the need for urgent action. We must act now, and move briskly and decisively away from a utility regulated perspective toward a natural market in telecommunications. In such a market:

- The customer is firmly in control; not the suppliers, not the regulator.
- Carriers look to the customer when making decisions about price, services and technology; in short, the customer dictates the rate of change.
- All carriers are free to offer the services that customers demand—at competitive prices and within competitive timeframes.

Today I'd like to discuss four building blocks that must be in place if we are to achieve a more natural market:

- One, the ability to provide solutions that meet the needs of customers and help them compete in their individual sectors;
- Two, the need for a regulatory viewpoint that recognizes the convergence of technology and the convergence of markets;
- Three, the need to evolve to streamlined, customer-focused regulation in telecommunications; and
- Four, recognition of the need for a strong financial base if we are to succeed against large, well-financed global companies.

Name any major industry today—from banking to automobiles to telecommunications—and you'll find the customer is the driving force in that business.

The customer is certainly the driving force in my business. If I meet my customers' needs, and help them to succeed—I succeed, too. If I fail to give customers what they want, the consequences can be far-reaching.

When customers take their telecommunications business and walk, it often means that jobs and money leave this country. We can no longer count on a "great wall at the frontier." Technology and markets have made the wall obsolete, and large customers with international telecommunications requirements realize that they can be serviced from anywhere in the world.

And the demand for service transcends size.

All customers—large and small—are aware that their ability to compete in their given field depends on their ability to move information. It depends on their ability to access a wide array of advanced services, and to conduct business efficiently and economically around the world.

They want the right products, at the right time, at the right price. Anything less and they can't compete effectively. Bell Canada and its Stentor partners are responding with a huge sense of urgency to this imperative.

On the pricing front, we are pursuing the goal of reaching long-distance price parity with the U.S.—a key to success in the months and years ahead for our customers. We understand the urgency of getting there. We understand that we cannot succeed if we put our customers at a competitive disadvantage.

Bell continues to roll out new discount packages, such as the proposed frequent-caller plan for residence customers, our proposed Teleplus Overseas service, or the suite of discount options now available in the business market.

We have moved rapidly to upgrade our network, spending $18 billion in 10 years, including $5 billion in the recession years of 1991 and 1992. Today, we have one of the most modern networks in the world—more modern than most comparable networks in North America. And we continue to enhance our digital technology platform. This allows us to further reduce costs, improve network quality, and offer new services that our customers demand.

We are also becoming more customer-focused, by creating smaller business units that deal directly with the public. And we are instituting a Total Quality approach to service throughout our organization.

On the global front, we have been building alliances that will allow us to improve our competitive position internationally. Through our Stentor partners, and on our own, we have struck up alliances:

- with FNA, the Financial Network Association, an alliance of telecommunications companies from around the world, dedicated to serving the global needs of the financial services industry;
- with MCI, the lean and competitive upstart that keeps winning market share from AT&T;
- with GTE, where we found a modern billing system that will address an urgent need of the business community.

Alliances of this nature are the name of the game in the global arena. Like most telecommunications companies around the world, Bell and its partner companies can't afford to go it alone. At the same time, we cannot cede control of our national telecommunications infrastructure to foreign interests. It is a key part of Canada's economy, and a major building block for our future survival. We must retain it.

By the same token, policy makers and regulators in the industry can no longer operate in the closed systems of the past. Policy and regulation have to keep pace with the changes in technology and the marketplace. There is no room in today's highly competitive world for anything other than a world-class Canadian telecommunications industry—and that means world class in quality, in range of services, and in price.

There is no room for some cosy artificial Canadian market with arbitrary boundaries and artificial prices.

If the first fact of life in today's telecommunications industry is that the customer is boss, the second fact of life is that technology and markets wait for no one. Indeed, in the last 10 years, technology has changed the face of this industry.

As a result, telecommunications can no longer be divided into neat compartments, with long-distance, cable, cellular, satellites and other categories carefully defined and separately regulated. Convergence is the byword in the industry today as technologies overlap, and open up new possibilities for different types of services.

In the U.S. recently, we have seen two of the regional carriers— Southwestern Bell and Bell Atlantic—strike deals to either buy out or ally themselves with cable TV companies.

Here in Canada, of course, telephone companies are not permitted to enter the cable business. I don't see how keeping cable and telephone companies separate will benefit either the cultural objectives of the government, or the international competitiveness of the Canadian economy.

The telephone companies must be allowed to fully compete in all communications markets for the benefit of all Canadians. In fact, I think Canadians would greatly benefit if cable companies had to face competition from telephone companies. Bell Canada should be able to carry anything, independent of technology, for any customer, anywhere.

Other access carriers, like cable companies, should be considered as common carriers. The market should determine who carries what, over which network. The issue for regulators should not be whether to do it, but how and when.

Frontier barriers and technological limits have been eliminated, and failure to recognize what this means could lead to a serious decline of our industry.

This is not some speculative future that I'm talking about. Elsewhere in the world, we have already seen the development of pricing and product options based on this convergence.

We have made our views known on this subject in the CRTC's current review of cable and broadcasting.

We have also worked with our Stentor partners in presenting a comprehensive proposal in the CRTC's review of regulation in the telecommunications industry.

This represents a third component in the move to a natural market: the need for on-going regulation that is streamlined and effective. The core of our proposal in the CRTC review is that prices and earnings for competitive services should be determined by the market. The only regulation that would apply in competitive markets is that which applies under competition law.

As for utility services, we believe rate-of-return regulation is most appropriate today. But, tomorrow, as we evolve to a more rational pricing structure, we recommend a move to incentive-based regulation, such as the price-cap model.

But, this too would be transitional. As market forces take hold in the local market—a development we would welcome—regulation should be reduced even further. All of us have to recognize that timely service and pricing action in response to customer and competitive pressure is an urgent necessity—now.

Unfortunately, there are still too many regulatory delays, ranging from weeks to months. This may be good for AT&T's Unitel, but it only punishes customers by making them cool their heels.

In my view, the interim solution is to make the existing rules of the CRTC work to the customer's advantage, holding up innovation, new services and new products as little as possible. This being said, I recognize that the CRTC is not the only player in the game.

It is also important that the new Telecom legislation, with amendments, be passed before the coming election. I welcome Parliament's second reading of the bill. And I support the government's drive to get an amended bill passed before an election is called.

As well as streamlining regulation, it is also Bell's belief that the pricing structure that exists in our industry must be reviewed. It has long been public policy for long-distance service to cross subsidize local service by about $2 billion annually. In fact, about 17 cents per minute of long-distance revenue goes toward subsidizing local service, while the big U.S. carriers pay only two to three cents a minute to their cross-subsidy—about a seven-fold difference between the two countries.

This is a startling gap. It gives American carriers like AT&T a decided advantage when competing for North American business. And it's not a cost problem—it's a pricing problem.

Based on a recently updated study by Mercer Management Consulting, our costs are among the best in North America.

Bell Canada's $2 billion cross-subsidy from long-distance keeps our local rates low, but it also keeps long-distance rates way above cost—and way above U.S. levels.

In a different world our local rates would be regarded as predatory—so artificially low as to eliminate competition and dampen innovation in the local service area. In our submission to the CRTC's regulatory review, we propose a complete reform of the local and long-distance pricing structure.

I personally cannot see that we have any other choice if Canada is to remain competitive.

The fourth element in the development of a natural market is the continuing strength of Bell's financial base. Plainly stated, financial strength is the linch-pin in being able to compete. Without a strong financial base, we cannot meet the challenges presented by this new era of telecommunications.

Our financial strength is what allows us to continue to improve our network, expand our services, and guarantee high-quality service to customers. This is the basis of the general rate application we filed with the CRTC in early February.

If there was any way that I could have avoided this action, I would have. It is the first general local-rate application from this company in 10 years.

In that time, long-distance prices have fallen, local price increases have been much lower than the rate of inflation—and, even with new taxes, our overall prices for local and long-distance service have actually fallen by one per cent, while inflation grew some 47 per cent. Cable prices in Canada went up 70 per cent during that period.

However, both the slow economy and resale competition have eaten into our profitable long-distance revenues. At the same time, money-losing local service continues to grow.

It costs, on average, some $40 to supply a service for which we get about $10 per month. And, unlike many other businesses, Bell has an obligation to serve—in unprofitable markets, and when economic times are tough.

We need significant capital investment, year in and year out, good times and bad, to meet customer demand, replace and repair our existing plant, and answer customer demands for new products and high-quality service.

That annual investment measures in the billions, even in recessionary times. And it needs to be financed. A fair rate of return is in the interest of our customers, as well as being a key element in maintaining the vitality of the Canadian telecommunications infrastructure.

Early in April, the CRTC denied Bell's request for an interim rate increase. This was a disappointment for us. We saw the interim increase as a practical approach to balance the revenue requirements for this year and next, and allow our customers to adjust to the higher rates.

That being said, we are confident in the merits of our full application, and in our ability to present a compelling case before the CRTC. In the meantime, we have no choice but to ensure our financial integrity. To this end, we have cut our construction program by $190 million in 1993.

We have also deferred about $140 million in capital expenditures associated with the Community Calling Plan we had proposed as part of the general rate application. The plan would now be introduced in 1994, assuming CRTC approval.

Coming on top of the very ambitious productivity target set for 1993, we expect it will not be possible to implement these new cuts without having some customer-affecting local service impacts. These impacts are likely to be felt earliest in our ability to provide local service in unserved territory, and in accommodating customer requests for service upgrades.

This is unfortunate, but prudent management demands that we maintain our near-term financial integrity pending the Commission's final decision.

As I said at the outset, it's a fascinating, challenging time to be a participant in Canadian telecommunications.

There are four concluding thoughts I would like to leave with you.

First, Bell is dead serious about being the first choice for our customers. We intend to be fierce competitors.

Second, we believe Canada is still living with rules meant for yesterday's marketplace. It's time to move to a natural market in telecommunications.

Third, greater regulatory freedom is the only way customers will truly benefit from competition.

And fourth, financial integrity is at the centre of it all. Financial integrity makes world leadership possible.

Thank you for your time today.

The appreciation of the meeting was expressed by Sarah Band, Past President, The Empire Club of Canada.

Sydney Hermant 1912–1993

In Memoriam

With the death of Sydney Hermant in 1993 The Empire Club, the Canadian business community, and the world of corporate and charitable service suffered an irreplaceable loss.

Sydney Hermant, born in 1912, a graduate of Upper Canada College and the University of Toronto (Hon. Law 1935), spent his business career with the Imperial Optical Company, the firm his father, Percy Hermant, had founded in 1900. Imperial Optical, the first optical manufacturing industry in Canada, grew, under the leadership of the Hermant family, from a small workshop in Saint John, New Brunswick, to a company with branch laboratories across the country. It competed successfully in world markets and was known for the quality of its product.

In a wide variety of ways, Sydney Hermant served his community and his country. He was a director of The Canadian Imperial Bank of Commerce, Peoples Jewellers Ltd., a member and then president of The Toronto Board of Trade, chairman of the Board of Trustees of The Royal Ontario Museum, member of the Governing Council, University of Toronto, and Senior Fellow, Massey College.

To The Empire Club he gave his complete support. After his term as president concluded in 1951, he remained, for the forty-two years until his death, a constant presence at meetings, and a sage counsellor. To the Club's leaders he was a voice of experience that was heard only when his advice was sought. To a new member of the board he represented the value of the Club as an educational force as he explained how much he had learned over the years since, as a young man, he had begun attending meetings with his father. Sydney Hermant was a wise and caring man with an open and inquiring mind. He is sorely missed.

Mary Byers

Annual General Meeting

President's Report

April 29, 1993

Chairman
Robert L. Brooks, President

Robert L. Brooks

Honoured guests, distinguished Past Presidents, members and friends of The Empire Club of Canada. Notice has been given that our annual meeting is to be held on this date and I have asked the Club Secretary, Willis Blair, to act as Secretary for the meeting.

In accordance with Article VI, Sub-section 2, The Empire Club's constitution, I am pleased to report on the year's activities.

The President's report has been printed and copies have been placed on each table for your review. In the interests of time, only a brief synopsis of this report will be given today.

Three hundred and sixty-four days ago you entrusted me with the responsibility of the Club's Presidency for the 1992–93 year. As many Presidents have said before me, leading an organization that has many years of tradition and the stature of this one, is truly an awesome responsibility. It is, therefore, with somewhat of a feeling of relief, that I stand before you today to report on the year's results and to turn over the chain of office to Eric Jackman. I look forward to continuing to participate in the Club's activities, both as a Past President, and also as one who enjoys immensely the broad range of speakers the Club continues to attract.

During the 1992–93 season, the Club presented 32 luncheon speakers, drawn as usual from a wide range of backgrounds and disciplines. Early in the year we heard from Canada's first woman in space, Roberta Bondar; a former head of the Bundesbank, Karl Pohl; and a particularly impassionate Bob Rae on the then very topical issue of the Charlottetown Accord to amend Canada's Constitution.

As the year progressed, we presented several speakers with international connections, including the Foreign Minister of Hungary and the Ambassadors to Canada from the United States, the Soviet Union and mainland China. Business speakers included the CEO of one of the world's fastest growing companies, Dell Computers, and speakers who gave us an insight into the changes in the telecommunications industry from both Unitel and Bell; as well as a review of the Olympia & York debacle by the well-known author, Peter Foster. And as usual politics received coverage. On balance, it was a typical cross-section of the year's major events.

Appreciation

There are many who contribute to the success of The Empire Club and it has become traditional to single some out at this time. Let me, therefore, express a special word of thanks to the following:

- Our speakers who always appear without compensation or even expense reimbursement.
- Anne Lato and Leslie Milligan, who do a fantastic job of keeping the Club rolling along and keeping the President out of trouble.
- The Directors and Officers of the Club who voluntarily give of their time and energy without any complaints. I want to particularly acknowledge the contribution of those Directors who are not standing for election at this annual meeting. Please accept thanks for all your efforts.
- Those Directors and Past Presidents who chaired or served on the many committees which are so necessary to the Club's ongoing operations.
- The Royal York staff under the leadership of Joe Caterino.
- Rogers Community 10 and CJRT 91.1 FM.

- The Officers and Directors of The Empire Club Foundation.
- Past Presidents for building the Club and continuing to participate in its management.
- Members for supporting the Club and attending luncheon meetings.
- And lastly, members and Directors for giving me an opportunity to be your President for a year.

In Memoriam

At the annual Past Presidents' dinner held October 1, 1992, Reginald Stackhouse delivered a special tribute to the Hermant family for their incredible contributions to the Club over the years. I reflected on how timely this had been, when the patriarch, Sydney Hermant, our distinguished Past President, passed away last December 23, 1992. We are fortunate, indeed, to have the continuing contributions of Peter and Katie.

The Future

Changes in life styles, as well as the effects of the economic depression, continue to challenge The Empire Club. As reported in previous years, membership has been declining despite great efforts on the part of your Directors to reverse the trend. Perhaps more creative solutions are necessary.

Attendance at weekly meetings varied tremendously, depending on the attractiveness of the speakers to a very discerning audience. The Club must continue to balance the issue of attracting an appropriate size of audience with ensuring that relevant points of view on key issues have a forum.

I had hoped to foster greater co-operation with our sister organization, The Canadian Club, so as to reduce the negative effect of undue competition between the two organizations during these difficult times. Unfortunately, I was not able to do so, but I hope my successor will be more fortunate.

Eric Jackman has served on the board of the Club for many years. He has accepted the Presidency a year earlier than was intended, and has already grasped the opportunity with great enthusiasm. I look forward to working with him and wish him every success.

The President's job is an onerous one but one which provides great personal satisfaction. I am grateful to you all for giving me this opportunity, and also for supporting me as you have in this past year.

Thank you all.

Membership

Total membership for the year 1992–93 is 1,588 compared to 1,775 members in 1991–92. Categories of membership are as follows:

	1992–93	1991–92
Honorary Life Members	5	5
Life Members	173	182
Spousal	352	422
Regular	843	937
Student	13	17
Senior	202	212

Attendance

To date, a total of 32 meetings attracted 6,712 attendees representing a statistical average of 210 attendees per meeting.

Finance

Membership fees for regular membership, $40.00; spousal membership, $50.00; senior or student membership, $30.00; senior spousal, $40.00 and varying amounts depending on age for life membership. Luncheon prices for members approximate the hotel charge for luncheons. An additional charge of $5 is levied on non-member luncheons. The financial statements for the year ending April 30, 1993, will be presented to the Board of Directors. The audited financial statements will be published in the 1992–93 year-book.

Respectfully submitted,

Robert L. Brooks
President

Robert Brooks moved acceptance of the Annual Report, which was seconded by Diana Chant, then called upon the Immediate Past President and Chairman of the Nominating Committee, John Bankes, to give the report of the Committee.

John F. Bankes

Mr. President, distinguished guests, members and friends of The Empire Club of Canada: It is my pleasure, as Chairman of the Nominating Committee, to report on the work of the Committee which was constituted in accordance with Article III of the Club's Constitution.

Nominating Committee

The following persons served on the Committee:

From the Board of Directors:
John Bankes
Robert Brooks
Eric Jackman
Maria Roman
Tom Wells

From the membership at large:
Willis Blair
Douglas Derry
Bruce Sinclair
Tony van Straubenzee

Honorary Officers

The Nominating Committee is pleased to report that the Honorary Officers nominated for the 1993-94 season are as follows:

Honorary President
His Excellency The Rt. Hon. Ramon J. Hnatyshyn
P.C., C.C., C.M.M., C.D., Q.C.
Governor General of Canada
Honorary Vice-President
The Honourable Henry N. R. Jackman
C.M., B.A., LL.D.
Lt. Governor of Ontario
Honorary Chaplain
The Rev. Dr. J. Robert Watt
B.A., M.Div., D.D.

Honorary Secretary
Alan Tonks
Honorary Treasurer
Hartland M. MacDougall, C.V.O., O.C.
Honorary Solicitor
J. A. William Whiteacre, M.M., C.D., Q.C.
Honorary Assistant Secretary
W. Malcolm McIntyre
Archivist and Historian
Gordon G. Steele, M.Comm.

Honorary Directors

It is the recommendation of the Committee that for long and faithful service to both the Club and the Board of Directors that A. Carlyle Dunbar, Katie Hermant, Montague Larkin, Angus Scott, Margaret Scrivener and William G. Whittaker be made Honorary Directors of the Club. Setrak Adourian, Leland H Ausman, Dr. Clarence B. Crummey, The Hon. Barnett J. Danson, P.C., Dr. James A. Parish and Leslie Parkinson are to continue as Honorary Directors.

Directors

According to the Club's Constitution "the Board of Directors shall consist of forty members, including at least four Past Presidents of The Empire Club, one of whom shall be the Immediate Past President and three others shall be the three Past Presidents immediately preceding the Immediate Past President."

Therefore, in recognition of this Constitutional requirement, the Committee nominates the following Past Presidents as Directors of the Club:

the Immediate Past President, Robert Brooks
and also John Bankes, Harold Roberts and
Sarah Band.

Furthermore, the Nominating Committee recommends unanimously that the following members of the Board of Directors continue to serve in the coming year:

Edward P. Badovinac
Captain (N.) Robert N. Baugniet
S. W. (Sam) Billich
Mary R. Byers
LCol. A. G. (Sandy) Cameron, AdeC
Maj. William A. Duncan
David A. Edmison
Blake C. Goldring
Peter K. Hendrick
Duncan N. R. Jackman
Anne Libby
Marcia McClung
Bart J. Mindszenthy, A.P.R.
Maria Roman
Gareth S. Seltzer
C. Alexander Squires
Larry Stout
L. Douglas Todgham
John H. Tory
Thomas L. Wells

Resignations

I would like to take this opportunity to pay tribute to those Officers and Directors who have served the Club so faithfully, but who have had to step down:

Graham D. (Sam) Blyth
John Freyseng, Q.C.
K. Brent Snell

Each of these people has given fine service to the Club and we thank them. We hope that they will continue to enjoy active participation in the affairs of The Empire Club of Canada.

New Directors

Your Nominating Committee is pleased to nominate the following new members for the Board of Directors:

Maureen Cappon-Javey

Denise Cole
Rob Davis
Tom Davies
Robert J. Deckert
Jan Diamond
William Laidlaw
Charlie Pielsticker
Paul Scargall
Bruce Sinclair

Officers

In addition to the above-mentioned nominees, the Committee recommends the election of the following three people who will be proposed to the Board of Directors for appointment to the positions of Vice-President and Director:

1st Vice President and Director
John A. Campion
2nd Vice President and Director
Hershell Ezrin
3rd Vice President and Director
Julie K. Hannaford

The Nominating Committee is pleased to report that Willis Blair will continue as Secretary and that Diana L. Chant, C.A., has agreed to continue as the Club's Treasurer. Both Willis Blair and Diana Chant will serve as Directors of the Club.

Finally, your Committee is pleased to nominate as President of The Empire Club of Canada for its 1993–94 season, Dr. Frederic L. R. Jackman.

Dr. Jackman is Chairman of the Jackman Foundation and President of Invicta Investments Incorporated.

Eric is involved in several educational, community and cultural organizations. He serves as President of the Ontario Psychological Foundation. Eric works on the Executive Committee of the Art Gallery of Ontario. He is a Governor of the University of Windsor, the Canadian Hearing Society Foundation. In 1991–92 he was a member of the Canadian Advisory Council for the Renewal of Canada Conference:

Shared Values, the Canadian Identity.

Eric was the founding Chairman of the United Way, Leaders of the Way Campaign and founding President of the University of Chicago Alumni Club of Canada as well as being a Past President of the Multiple Sclerosis Society of Canada, Toronto chapter. He was formerly a board member of the Victorian Order of Nurses, the Stratford Shakespearean Festival, The Tarragon Theatre, The Cabbagetown Youth Centre, The Couchiching Institute of Public Affairs and Trinity College School. Eric served as a Steward for the Metropolitan United Church and as the Progressive Conservative candidate in the 1980 federal election in Spadina riding.

Educated at the Universities of British Columbia and Toronto, (B.A., Economics, M.A., Psychology) and Chicago, (PhD. Human Development and Psychology) he practised professionally for 17 years in the United States and Canada. Eric was Chairman of the Illinois Psychological Association's Clinical Section, and President of the Illinois Group Psychotherapy Society. Eric is currently President of the Canadian Group Psychotherapy Foundation.

For his contributions toward making psychological knowledge available to the general public, Eric was awarded the 1991 C. M. Hincks National Award for Mental Health by the Canadian Mental Health Association.

Eric is married to Sara, a clinical social worker in private practice, and has three children, Tara, Thomas and Robert. In his spare time, he enjoys skiing and vacationing in Georgian Bay.

Ladies and gentlemen, I am honoured to place Frederic Jackman's name in nomination for the presidency of The Empire Club of Canada for 1993–94.

In conclusion, I wish to thank the members of the Nominating Committee for all their work and on their behalf, I move the adoption of this report.

John Bankes moved acceptance, seconded by Blake Goldring. There being no further nominations, Gordon Steele moved that nominations be closed. Carlyle Dunbar seconded the motion.

The President then asked the Secretary, Willis Blair, to cast a single ballot in favour of those persons named in the report of the Nominating Committee, in accordance with Article III-3 of the Constitution of the Club. The President declared the members properly elected as Directors of The Empire Club of Canada for 1993–94, the Club's 90th year. The meeting was adjourned.

MEMBERSHIP 1992–1993

Life Members

N. John Adams
Setrak Adourian
J. D. Alexander
John P. Alexander
William N. Allan
Graham H. Ambrose
B.Gen. & Mrs. S. F. Andrunyk
Mr. & Mrs. Leland H. Ausman
Ruby P. Avison

Mr. & Mrs. Edward Badovinac
John Bassett
Mr. & Mrs. Ian S. Baxter
D. S. Beatty
M. E. Louise Beck
Everton R. Belyea
Ferne Bennett
Dr. R. C. Bennett
Bruce Birrell
Willis L. Blair
R. L. Broad
F. B. Brooks-Hill
Arthur E. Brown

W. Allan Campbell
Mrs. Charles Carter
Sir Arthur R. T. & Lady Chetwynd
James L. Clare, F.S.A., F.C.I.A.
Walter W. Comber
Mr. & Mrs. John Cook
Benedict G. R. Cotterill
Mr. & Mrs. Elgin E. Coutts
John A. D. Craig
Dr. H. V. Cranfield
Nola Susan Crewe
Dorothy Crummey
Mrs. Matthew Currie

George C. Damiani
Douglas A. C. Davis
Elvio Del Zotto
Mr. & Mrs. D. L. Derry
Robert G. Douglas
A. A. Duncanson
E. B. Dungey
Mr. & Mrs E. A. Duvernet

Joseph L. Etherington

Dr. David J. Fieldhouse
A. E. Fitzpatrick
Frank E. Forsdike
Federico Friedberg
Col. C. S. Frost, Jr., Q.C., C.D.

Lillian G. Gandier
George Raymond Gibson
J. Rennie Graham
John W. Graham, Q.C.
Kenneth G. Graham
Patricia A. Grand
Wayne Scarisbrick Gray
Ian Griffin
John W. Griffin

B. Halstead
George S. Hanson
George M. Hargraft
Nona Macdonald Heaslip
Paul T. Hellyer
Roland E. Henderson, Q.C.
Robert. I. Hendy
Mr. & Mrs. John T. Hepburn
Adam B. T. Hermant
Peter Hermant
John D. Herrick
Col. R. H. Hilborn
William S. Hill
Dorothy Hobbs
Mr. & Mrs. Herbert R. Hobbes
Dennis Holota
Mrs. E. Howell

A. E. M. Inwood
John F. Irwin

Henry N. R. Jackman
W. Henry Jackman

John M. P. Joel
James H. Joyce
Friederich W. Jung

Elfreda W. Karn
John Kemp
F. Marion Kiddell
Rev. Sterling Kitchen

Aileen M. Lacey
James G. Laidlaw
A. T. Lambert
John V. Lawer, Q.C.
Col. Wm. R. Learmonth
M.Gen. Bruce J. Legge
Kenneth Legge
Eric N. Lehner
Friedrich Lehner
James D. Lewis
R. G. Loftus
Mr. & Mrs. D. D. Lucas
Joseph F. Luciano

E. Nelson MacNab
John & Gail MacNaughton
C. John Martin
Beverley Matthews, Q.C.
Ewald P. Mazurek
Fred G. McBrien
John S. G. McCrimmon
James W. McCutcheon, Q.C.
F. Y. McCutcheon
Konrad R. W. Mech
John D. Memory
Dr. Herbert Michel
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D. V. Mosher
Mr. & Mrs. Clifford N. Moss
Clara Miriam Muskat

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Bernard T. Ness

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Stanislaw T. Orlowski

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D. A. Pryer

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Professor Henry U. Ross
Col. The Hon. R. C. Rutherford

Leo E. Schacter, Q.C.
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Mrs. Barton F. Teasdale
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Leonard I. Turkevics
R. Turnbull
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Harry T. Tye

Michael Van Denbossche
Dr. Devendra P. Varma

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F. Bartlett Watt
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Douglas S. Wells, O.M.C.
J. K. Williams, Q.C.
G. D. Wotherspoon

Andrew Stephen Zarnett

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Rev. Harry Amey

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Pamela Wright

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Ernst Younes

Michael Zygocki

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Philippe De La Messuziere
Matey Nedkov de LaCamp
Cesar De Morais
Gary Denney

Honor de Pencier
John D. de Pencier
Janni de Savoye Sams
Donald DeToro
Dorothy DeToro
Ian R. Dever
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Agnes Di Leonardo
Mary Di Tursi
John Dickey
Bernadette Dietrich
Nicholas E. J. Dietrich
Chris Dobson
Roger G. Doe
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Major Peggy Downes
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A. Carlyle Dunbar
Robert Duncan
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Jan Dymond

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Al Egbert
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Ian Ellingham
Gord Ellis
Angela Emerson
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Gino Empry
B. A. Ennis
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Ameer Esmail
William Evems
Colin Ewing

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Christine Featherstone
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Richard G. Fitzsimmons
Gerry Flahive
Hart Flatt
Muriel Fleger
Howard Flood

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Hugh R. Franks
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E. John Freyseng
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F. D. Gibson
John D. Gibson
Robert C. Gibson
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Brenda Glover
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L. L. Gordon
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Ian Graham
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William E. Graham
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Earle Gray
Bobbi Greenberg
Jennifer Greenwood
Douglas Alan Gregory
Andrew Griffin
John Griffiths

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Rainer E. Gut
H. Donald Guthrie, Q.C.
Jeff A. Guthrie

Paul Haberl-Schicker, ESQ.
John R. Hadfield
C. K. Halton-Imison
Dr. Janice M. Hambley
Julie K. Hannaford
T. M. Hannan
Lars Hansen
Ray Harte
C. Stuart Hartley
John C. Harvey Jr.
John Hastings
S. Mary Hatch
John Wilson Hauseman
Ron Hauth
Tony Hauth
Edwin F. Hawken
Nobuhiro Hayashi
BGen. Paul A. Hayes, O.M.M., C.D.
Paloma Healey
Lynne D. Heaman
Peter K. Hendrick
Janet Hendry
Lars Henriksson
Kathleen Hermant
John S. Herron
J. S. Hershaw
Rives G. Dalley Hewitt
Harry D. L. Hill
Sidney Himmel
K. Matthew Hoang
Dayle M. Hodson
Roy D. Hogg
F. C. Honey
Sir Clark J. Horan III
Stan D. Houston
Hon. W. G. C. Howland
R. Michael Huckson
Mary Huffman
Frank Huggins
Judith Humphrey
Sid A. Humphreys, C.A.
Baljinder S. Hundal
Susan M. Hunt
LCol. P. W. Hunter
Wayne J. Hussey
Paul Huyer
Geoffrey M. Hydon

Ian O. Ihnatowycz
William J. Inwood
A. B. Irwin
John W. Irwin
Mildred Istona

Duncan Jackman
Frederic L. R. Jackman
Nancy Jackman
Rev. Edward J. R. Jackman
Maxime Jacob
Judy L. Jakuboski
Bruce G. James
T. G. Jamieson
H. J. Janthur
Connie Jeffrey
Clifford R. Jenkins
Yvonne Jerred, C.G.A.
Don K. Johnson
Paul Johnson
Tom Johnson
James Johnston
Margaret M. Johnston
Werner Joller
Becky Jones
Margaret Anne Jones
A. P. G. Joy
Katherine A. Judge
Douglas Jure
Willi Justrich

Sam Kanes
Jacquie Kangas
Sonia Kaplan
Shamsh Kara
Alex Katsabouris
Terence Kavanagh
Carrie Kaye
Walter Kehm
Stan Keith
Gabor Kekko
Stewart C. Kellock
Morley C. Kells
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The Rev. Walter J. Kelly
Tasker S. Kelsey
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Leon Kentridge
James W. Kerr
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P. Khaiat
Barry B. Khojajian

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Victor Koloshuk
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Stan J. Krol
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Auditors' Report

To the Members of
The Empire Club of Canada

We have audited the balance sheet of The Empire Club of Canada as at April 30, 1993 and the statements of members' equity and revenue and expenditure for the year then ended. These financial statements are the responsibility of the Club's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Club as at April 30, 1993 and the results of its operations for the year then ended in accordance with generally accepted accounting principles.

SMITH, NIXON & CO.
Chartered Accountants

Toronto, Ontario
September 2, 1993

Financial Report

THE EMPIRE CLUB OF CANADA
Balance Sheet as at April 30, 1993

Assets	1993	1992
Current		
Cash and short-term deposit receipts	$176,179	$ 189,109
Accounts receivable	2,467	12,768
Inventory	2,414	2,521
	181,060	204,398
Fixed Assets	1	1
	$181,061	$204,399

Liabilities		
Current		
Accounts payable	$ 23,548	$ 28,939
Due to The Empire Club Foundation	39,980	20,000
Provision for prepaid membership fees and unredeemed luncheon tickets	3,992	6,015
	67,520	54,954

Members' Equity		
Surplus	92,364	128,268
Life Membership Reserve (Note 2)	21,177	21,177
	113,541	149,445
	$181,061	$204,399

Signed on behalf of the Board

Margaret Scrivener
Director

Diana L. Chant
Director

The accompanying notes are an integral part of these financial statements.

Financial Report

THE EMPIRE CLUB OF CANADA
Statement of Members' Equity
for the Year Ended April 30, 1993

	1993	1992
Surplus, Beginning of Year	$ 128,268	$ 125,429
Transfer from life membership reserve (Note 2)	—	1,300
Excess of (expenditure over revenue) revenue over expenditure for the year	(35,904)	1,539
Surplus, End of Year	$ 92,364	$ 128,268
Life Membership Reserve, Beginning of Year	$ 21,177	$ 22,150
Membership fee received	—	327
	21,177	22,477
Transfer to surplus (note 2)	—	(1,300)
Life Membership Reserve, End of Year	$ 21,177	$ 22,177

The accompanying notes are an integral part of these financial statements.

Financial Report

THE EMPIRE CLUB OF CANADA
Statement of Revenue and Expenditure for the Year Ended April 30, 1993

	1993	1992
Revenue		
Membership fees	$ 38,447	$ 40,615
Luncheons—net	21,120	51,730
Interest	9,697	14,749
Others—net	4,639	1,000
	73,903	108,094
Expenditure		
Meetings	1,525	4,704
Members' notices	18,173	18,401
Office and general	8,057	6,349
Office salaries and employee benefits	37,304	33,038
Printing, stationery and postage	6,112	6,745
Publicity and promotion	3,328	3,242
Rent	12,265	12,351
Telephone	2,194	2,499
Yearbook donation and sundry expenses	20,849	19,226
	109,807	106,555
Excess of (Expenditure over Revenue) *Revenue over Expenditure for the Year*	$ (35,904)	$ 1,539

The accompanying notes are an integral part of these financial statements.

THE EMPIRE CLUB OF CANADA
Notes to Financial Statements
for the Year Ended April 30, 1993

1. *Significant Accounting Policies*

(a) Revenue Recognition

Membership fees for the Club are recorded on a cash basis except fees relating to the next fiscal year which are deferred. All other revenues are recorded on the accrual basis of accounting.

(b)Inventory

Inventory is valued at the lower of cost and net realizable value.

(c) Fixed Assets

Fixed assets, consisting of office furniture and equipment, are recorded at nominal value and additions are recognized as an office and general expenditure in the year acquired. There were no significant additions in the fiscal years ended April 30, 1993 and April 30, 1992.

(d)Due to The Empire Club Foundation

A donation to The Empire Club Foundation for the estimated cost of supplying the Club's membership with the yearbook of the current year is accrued each year.

2. *Life Membership Reserve*

Term deposit receipts are segregated as funding for this reserve in order to provide a continuing income to sustain the membership costs of life members all of which is recorded through the general fund. The reserve was decreased by $1,300 in 1992 to allow for decreases in the life membership roll.

3. *Incorporation*

The Club was incorporated under Letters Patent in the Province of Ontario on March 26, 1912. The principal function of the Club is to provide a forum for prominent people to address members of the Club and their guests on topics of current interest.

3. *Commitment*

In February 1993 the Club entered into a lease agreement for premises expiring October 1, 1995. Minimum annual rental payments under this lease agreement are as follows:

1993–1994	$4,900
1994–1995	$8,400
1995–1996	$3,500
	$16,800

The Empire Club Foundation

December 1993

Ladies and Gentlemen,

1993 has been a busy and interesting year for me. The John F. Bankes book was published and distributed to nearly 6,000 addresses in the spring and the Robert L. Brooks book is nearing completion. I am extremely grateful to our editor, Mary Byers, who has done a sterling job in putting together both of these books in record time, and I thank her for the significant amount of her valuable time she volunteers to the Foundation.

A major fund raising effort aimed at the corporate world was carried out in the early spring. Whilst this initiative was generally well supported, the results did reflect the economic situation; however, a similar letter to the officers, directors and past presidents of the Club was most generously received and subscribed.

Despite the munificent support of our members, if the book of addresses is to continue we will need to rethink our fund raising activities and seek new and innovative ways to keep the Year Book alive and I look to your continued support in facing this challenge.

So too, I am grateful to the officers and directors of the Board of the Foundation for the help and guidance they have given to me personally, and for the time they so freely donate to the affairs of the Foundation.

Yours sincerely,
Reginald W. Lewis
Chairman

Officers

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Chairman:	Reginald W. Lewis, CMM, CM, OStJ, CD
Vice-Chairmen:	Miss Sarah A. Band, CStJ Hartland M. MacDougall, CVO, OC Harry T. Seymour
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Honorary Solicitor:	J. A. William Whiteacre, MM, CD, QC
Honorary Treasurer:	Ronald Goodall, FCA
Past Chairmen:	John W. F. Griffin Bruce J. Legge, CMM, CM, KStJ, ED, CD, QC Robert H. Hilborn, LVO, MBE, CD John A. MacNaughton

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Douglas L. Derry, FCA
C. Warren Goldring
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Peter W. Hunter, CD
H. Ian Macdonald, OC, KLJ, BComm, BPhil, LLD
Frank F. McEachren, CVO, CM, KStJ, ED, CD
David G. C. Menzel, QC
Harold Roberts, CD, ADC
John M. Thompson
Anthony A. van Straubenzee

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The Empire Club Foundation

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Goldring, C. W.

BENEFACTORS ($300.00 to $499.99)

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Lander, Donald H.
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MacNaughton, John and Gail
Seymour, Harry T.
Squires, C.A.

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Yeats, William
Waldie, Gordon
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Reid-Weston, J.

Auditors' Report

To the Members of
The Empire Club Foundation

We have audited the balance sheet of The Empire Club Foundation as at April 30, 1993 and the statement of income and expense and members' equity for the year then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In common with many charitable organizations, the organization derives income from donations from supporters the completeness of which is not susceptible of satisfactory audit verification. Accordingly, our verification of these incomes was limited to the amounts recorded in the records of the organization and we were not able to determine whether any adjustments might be necessary to donation income, excess of income over expense, assets and members' equity.

In our opinion, except for the effect of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves concerning the completeness of the donations referred to in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the organization as at April 30, 1993 and the results of its operations for the year then ended in accordance with generally accepted accounting principles.

SMITH, NIXON & CO.
Chartered Accountants

Toronto, Ontario
October 8, 1993

THE EMPIRE CLUB FOUNDATION
Balance Sheet as at April 30, 1993

Assets	**1993**	**1992**
Current Assets		
Cash and term deposits	$ 58,652	$105,101
Accounts and interest receivable	4,722	2,203
Due from The Empire Club of Canada	39,979	20,000
	$103,353	$127,304

Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	$107,409	$112,398
Members' (Deficit) Equity		
Equity	(4,056)	14,906
	$103,353	$127,304

Signed on behalf of the Board

Douglas Derry
Director

Ronald Goodall
Director

The accompanying notes are an integral part of these financial statements.

THE EMPIRE CLUB FOUNDATION
Statement of Income and Expense and Members' Equity for the Year Ended April 30, 1993

	1993	1992
Income		
Donations:		
The Empire Club of Canada	$ 19,979	$ 20,000
Supporters	11,702	12,579
Interest	3,922	6,786
	$ 35,603	$ 39,365
Expense		
Yearbook	53,765	66,521
Stationery, postage and other expenses	800	733
	$ 54,565	67,254
Excess of Expense Over Income	(18,962)	(27,889)
Members' Equity - Beginning of Year	14,906	42,795
Members' (Deficit) Equity - End of Year	$ (4,056)	$ 14,906

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements for the Year Ended April 30, 1993

1. *The Foundation*
The Foundation was incorporated on January 22, 1969 under the laws of Canada as a non-profit organization. The principal function of the Foundation is the publication and distribution of yearbooks, containing the texts of addresses to The Empire Club of Canada, to the Club's members and libraries across Canada. The Foundation's activities are funded by donations.

2. *Accounting Policies*
The Foundation includes donations in income when received except for donations from The Empire Club of Canada which are included in income when pledged. The estimated cost of publishing and distributing yearbooks of the current year is accrued each year.

CONSTITUTION

As amended April 26, 1973

Organization of the Club

ARTICLE I

Name

1. The Name of the club shall be The Empire Club of Canada.

Purpose and Object

2. The purpose and object of the club is to promote the interests of Canada and the British Commonwealth by the consideration and discussion of subjects and events relating thereto and by any other means appropriate to the facilities of the club.

Membership

ARTICLE II

Classes of Members

1. The membership of the club shall consist of:
   (a) Honorary members
   (b) Life members
   (c) Regular members
   (d) Corporate members

   All members of classes (a), (b), (c), must be the full age of eighteen years.

Honorary Members

2. Honorary members may be elected by the unanimous vote of those present at a meeting of the board of directors. They shall be exempt from the payment of fees but shall not have the privilege of voting or holding office and their membership shall be terminated at any time by a two-thirds majority of those present at a meeting of the board of directors.

Life Members

3. Members of the club in good standing (other than corporate members) and other persons regularly proposed may be elected life members by a two-thirds

majority of those present at a meeting of the board of directors. Life members shall pay such a fee in one sum as may be fixed from time to time by the board of directors.

Regular Members

4. Save as provided in Section 5 of this Article candidates for regular membership shall be proposed by a member in good standing and shall be elected by a two-thirds majority of those present at a meeting of the board of directors.

Save as provided in Section 5 of this Article regular members shall pay respectively such annual fees as may be fixed from time to time by the board of directors.[1] Members elected after the first day of March in any year shall pay one annual fee only in respect of the period from the date of election until the thirtieth day of September in the following year. No member in arrears for fees after January 1 shall be considered in good standing.

Corporate Members

5. Any company, partnership or business organization shall be eligible for election as a corporate member. Applicants shall be proposed by a member in good standing and the application shall contain the names and positions of the persons nominated by the applicant as its representative regular members. The applicant and its nominated representatives shall be elected by a two-thirds majority of those present at a meeting of the board of directors. A corporate member shall be entitled to nominate such number of its representative regular members as may be fixed from time to time by the board of directors and shall pay such annual fee as may be fixed from time to time by the board of directors, provided that such fee shall not be

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[1] *By resolution of the Board, November, 1981, and under Article II, 4, of the Constitution, it was agreed that the club charge a lesser membership fee for spouses living at the same residence, and that this fee should be fixed annually.*

less than the aggregate fees which would have been payable on an individual basis by such representative members for the year in question. Save as in this section provided no fee shall be payable by or in respect of the representative regular members of a corporate member.

Directors

ARTICLE III

Duties and Powers

1. The affairs of the club shall be managed by a board of directors who may exercise all such powers and do all such acts and things as may be exercised or done by the club and are not by the by-laws or by law directed or required to be done by the club at a general meeting of its members. At all meetings of the board of directors the chairman of the meeting shall have a casting vote.

Number and Quorum

2. The board of directors shall consist of forty members of whom sixteen shall constitute a quorum. The board of directors shall include at least four past presidents of the club, one of whom shall be the immediate past president and three others shall be the three past presidents immediately preceding the immediate past president if they are willing and able to act as directors.

Election of Directors

3. A nominating committee consisting of five members of the board of directors and four other regular members of the club shall be appointed annually by the board of directors at least thirty days prior to the annual meeting and shall prepare a list of nominations for directors for the ensuing year. The chairman or acting chairman of the nominating committee shall report the nominations of that committee to the annual meeting at which the board of directors shall be elected, but nothing herein shall preclude the nomination of other persons for the office of directors at the annual meeting. If nominations do not exceed the number of directors necessary, the chairman of the

meeting may instruct the Secretary-Treasurer to cast one ballot in favour of those so nominated and thereupon such persons shall be declared by the chairman to have been duly elected. No person shall be elected a director unless he is a regular member in good standing and is a Canadian citizen or a British subject.

Meetings of Directors

4. Meetings of the board of directors shall be called by the President, or on a requisition signed by three of its members. Written notice of such meetings shall be given to each director five days or more before the meeting is to take place, provided that a meeting may be held at any time if all the directors are present or if those absent have waived notice of or otherwise signified their consent to such meeting being held in their absence or have approved or signified their approval in writing to the proceedings taken at the meeting. The board may appoint a day or days in any month or months for regular meetings, at an hour or place to be named, and of such regular meetings, no notice need be given.

Casual Vacancies

5. In the event of any vacancy occurring in the office of director, the remaining directors may fill the vacancy from among the members for the unexpired portion of the term of office of the person whose office is vacant.

Officers

ARTICLE IV

1. The officers shall consist of an Honorary President, an Honorary Vice President, a President, First, Second and Third Vice Presidents, an Honorary Treasurer, an Honorary Secretary, a Secretary and a Treasurer. The board of directors may from time to time elect or appoint such other officers as it shall deem necessary. The President and the Vice Presidents shall be directors of the club but other officers need not be directors. No person other than the Honorary President and the Honorary Vice

President shall be eligible for office unless he is a member in good standing. The President shall, when present, preside at all meetings of the members and of the board of directors. During the absence or inability to act of the President, the Vice Presidents in order of seniority shall act as chairman at such meetings and otherwise perform and exercise the duties and powers of the President.

Appointment of Officers

2. The board of directors shall meet as soon as convenient after their election for the purpose of appointing the officers of the club for the period ending April 30 in the next year but each officer shall continue in office until his successor is elected.

Casual Vacancies

3. In the event of a vacancy occurring in any office the board of directors may fill the vacancy for the unexpired portion of the term.

Honorary Auditor

4. An Honorary Auditor shall be appointed at each annual meeting. An audited statement of the finances of the club for the fiscal year shall be published annually and a copy shall be sent to each member.

Committees

ARTICLE V

1. The following standing committees and the chairman of each shall be appointed by the board of directors as soon as convenient after the election of the board:
   (a) Budget and Finance Committee
   (b) Speaker's Committee
   (c) Membership Committee
   (d) Constitution Committee
   (e) Reception Committee
   (f) Publicity and Public Relations Committee
   (g) Yearbook Committee
   (h) Head Table Committee

   provided that for any year the board of directors may by resolution elect not to appoint any one or more of such committees.

2. The President or the board of directors may from time to time appoint such other committees as may be deemed expedient.

Meetings of Members

ARTICLE VI

General Meetings

1. The club shall hold general meetings weekly, if possible, from October to April, both inclusive, in each twelve months with such intermissions as may from time to time be determined by the board of directors. Special meetings of the club may be called at any time by the President.

Annual Meeting

2. The annual meeting shall be held not later than April 30 in each year. At the annual meeting a report of the year's proceedings and work shall be submitted by the President and this report shall be accompanied by an interim report from the Secretary-Treasurer.

Notice of Meetings

3. Written notice of all meetings shall be given all members of the club before the date on which the meeting is to be held. Such notice shall be sufficient if addressed to the members, and deposited post paid in the post office in Toronto. The accidental failure or omission to give notice to any member shall not invalidate the proceedings at any meeting.

Quorum at Meetings

4. Sixteen members in good standing shall constitute a quorum at any meeting of the club, general, annual or special, and the chairman of the meeting shall have a casting vote.

Limitation of Business at General Meetings

5. No business other than the hearing of the addresses shall be introduced at any meeting of the club by any person

other than the chairman of the meeting, unless it has been submitted to the board of directors and received its approval.

Fiscal Year

ARTICLE VII

The fiscal year of the club shall end on such day in each year as may be fixed by the board of directors but unless so fixed by the board shall end on April 30.

Amendments

ARTICLE VIII

Subject to the provisions of The Corporation Act this constitution may be amended by the board of directors, but unless in the meantime confirmed by a majority of the members present in person at a meeting of the members duly called for that purpose, any amendment is effective only until the next annual meeting of members unless so confirmed thereat and, in default of such confirmation thereat ceases to have effect at and from that time, and in that case no new amendment of the same or like substance has any effect until confirmed at a meeting of the members.